APPENDIX TO THE JOURNALS
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House of Representatives
OF
NEW ZEALAND
2014–2017
VOL. 5
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
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<td>24 Mar 2017</td>
<td>729</td>
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**Social Development and Housing Sector**

| Appropriations within Vote Building and Housing | Social Services | 24 Mar 2017 | 733  |
| Children’s Commissioner                        | Social Services | 24 Mar 2017 | 739  |
| Families Commission                            | Social Services | 24 Mar 2017 | 745  |
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| Social Workers Registration Board              | Social Services | 14 Mar 2017 | 773  |
| Tāmaki Redevelopment Company Limited           | Social Services | 23 Mar 2017 | 777  |
Introduction

This is a compendium of all the select committee reports on the 2015/16 annual reviews of Government departments, Offices of Parliament, Crown entities, public organisations, and State enterprises.

About this compendium

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

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

The Finance and Expenditure Committee’s report on the annual financial statements of the Government for the year ended 30 June 2016 is debated separately and so is listed separately from the sector groupings.

At the time of producing this compendium, the annual reports of Learning Media Limited, the New Zealand Symphony Orchestra, Terralink New Zealand, and the Canterbury Earthquake Recovery Authority have not been presented to the House and so have not been scrutinised as part of the 2015/16 annual review process.

With the disestablishment of the Canterbury Earthquake Recovery Authority in April 2016, various central and local government agencies now have responsibility for recovery and regeneration matters. The Greater Christchurch Group in the Department of the Prime Minister and Cabinet is responsible for policy, planning, legal, and monitoring support on a range of recovery and regeneration issues. The Department was scrutinised as part of the 2015/16 annual review process.

Usually, whole entities are allocated to select committees for annual review. The 2015/16 annual review of the Ministry of Business, Innovation and Employment (MBIE) was allocated to the Commerce Committee. However, some appropriations administered by MBIE were separated out and allocated to other, more relevant, committees. The Social Services Committee reported on the Vote Building and Housing appropriations administered by MBIE. This enabled it to complete a cycle that began in mid-2015 when it scrutinised the Vote Building and Housing Estimates for 2015/16.

Consideration of reports by the House

The annual review reports are considered in the House during the committee stage of the Appropriation (2015/16 Confirmation and Validation) Bill. The debate also provides an opportunity for debate on the Government’s financial position.
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Recommendation
The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Treasury, and the Financial statements of the Government of New Zealand for the year ended 30 June 2016, and recommends that the House take note of its report.

Introduction to this report
On 30 November 2016 we met with the Secretary to the Treasury to consider the 2015/16 performance and current operations of the Treasury. On that same date we met with the Minister of Finance to discuss the annual review of the Government’s financial statements for the year ended 30 June 2016.

This report summarises the main points from the relevant documents, the Treasury Annual Report 2015/16, and the Financial Statements of the Government of New Zealand for the year ended 30 June 2016, and our hearings with the Secretary to the Treasury, and the Minister of Finance.

We have divided the report into two parts—Part A covers the 2015/16 Annual review of the Treasury, and Part B covers the Financial statements of the Government of New Zealand for the year ended 30 June 2016.

Part A: 2015/16 Annual review of the Treasury
Introduction
The Treasury is the Government’s main economic, financial, and regulatory adviser. Its core functions include providing:

- economic policy advice
- financial management and advice
- state sector leadership (as one of the three central agencies)
- performance management and advice
- commercial policy advice and operations.

Gabriel Makhlouf is the Secretary to the Treasury.

Funding and expenditure
The Treasury is mainly funded through Vote Finance. In 2015/16, the department’s expenses totalled $102.992 million. It spent $95.848 million of this, resulting in a surplus of $7.1 million.
The Social Housing Reform Programme was a major area of work for the Treasury in 2015/16, incurring expenditure of $7.2 million. Spending on consultants was also significant at $8.9 million, compared with $7.6 million the previous year. This was mainly because of the social housing activity.

**Auditor’s assessment**

Based on its 2015/16 audit, the Office of the Auditor-General (OAG) rated the Treasury’s management control environment as “very good”, making no recommendations for improvement.

The OAG downgraded the Treasury’s financial information systems and controls from “very good” in 2014/15 to “good” in 2015/16, recommending that some improvements be made.

These recommendations were about the accounting effects of the disestablishment of the Canterbury Earthquake Recovery Authority, the process for ensuring that the appropriate fair value is applied to the New Zealand Debt Management Office’s advances, and several minor IT deficiencies with the Central Agencies Shared Services’ (CASS) finance information systems.

As it did last year, the OAG rated the Treasury’s performance information and associated systems and controls as “good”, recommending some improvements to the Reporting Against Departmental Appropriations section in the Treasury’s annual report.

**Forecasts and projections**

At the end of November, then Prime Minister John Key was asked about the Treasury’s forecast that, without reforms to New Zealand Superannuation, net debt would increase to more than 200 percent of GDP by 2060. He responded by saying, “The cool thing is Treasury can’t get their predictions right in 44 days, let alone 44 years. They constantly get it wrong”.

Referring to those comments, we asked the Secretary to the Treasury whether the Treasury’s forecasts are reliable. The secretary said that an assessment of the Treasury’s forecasting, published on Budget day, shows that it does a very good job. He said that forecasting is quite a difficult skill.

We discussed the difference between forecasts, which are done for a four-year period, and projections, which cover 40 years. Projections are based on assumptions projected forward, while forecasts are based on best judgement as to what might happen during a shorter time period.

We pointed out that, in 2009, the Treasury projected debt to be more than 200 percent of GDP by the mid-2040s, but it is now projected to be considerably lower. We were interested in the factors that had led to this anticipated reduction.

We heard that significant factors include the Government’s fiscal strategy, which is looking to reduce net debt to 20 percent of GDP by 2020, and the growth in the economy—GDP grew by 3.6 percent in the year to June 2016.

**Reserve Bank forecasting a drop in house-price inflation**

The Reserve Bank is forecasting that house-price inflation will drop to 2.5 percent in 2019. We asked the Treasury for its view on this.
We heard that house-price inflation is a concern for the Treasury, but it is aware that the Reserve Bank appears to be reasonably confident about the resilience of the financial system. It is keeping a close eye on the situation.

We discussed the resilience of households to cope with an unexpected shock such as a sudden increase in interest rates, although we understand that the Reserve Bank does not expect this situation to arise.

The secretary said that the Treasury draws on the Reserve Bank’s figures, but the main determinant of house-price inflation will be whether supply increases. There is considerable activity under way in central government, local government (including Auckland’s Unitary Plan), and the private sector to address the supply issue. This, along with the Reserve Bank’s macro-prudential intervention, has slightly tempered prices.

Some of us consider that supply will have only a limited effect on prices in a world where global capital means housing is essentially a financial instrument for the global marketplace. The secretary said that New Zealand is considered as an attractive place to invest because of its growth, positive interest rates, and debt being under control.

**Spending on social housing transfers**

During the last two financial years, spending on social housing ownership transfers of Housing New Zealand homes to community housing providers has totalled about $10 million, but no actual houses have been transferred. We asked the Secretary to the Treasury whether he is satisfied that this represents value for money for the taxpayer.

He said he is satisfied, for several reasons. He considers the Social Housing Reform Programme to be innovative in its creation of a market that will improve the quality and supply of social housing, securing tenants’ rights for a 25-year period.

A lot of the cost so far has been in securing the skills needed to execute the programme, and lessons have been learnt from the initial transactions. The secretary considers that, although it would have been better to see things happen faster, it is more important to do things well.

**Update on social housing transactions**

We heard that the transaction in Tauranga is proceeding, although a legal process is under way and a decision awaited. The Crown is confident of success.

The Invercargill transaction had been proceeding reasonably well until the other party decided not to continue with it. However, the secretary said that he would not rule out it coming back on to the work programme.

The secretary also said that people tend to forget that the Tāmaki regeneration programme, which will potentially see 2500 houses turned into 7500 homes in the next 10 to 15 years, is also a big part of the social housing programme.

**The Treasury’s role in social investment**

We asked what the Treasury’s role is in the whole-of-government approach to rethinking the way in which social services are delivered to ensure that the Government invests where the need, effect, and the return are the greatest.
We heard that the Treasury’s role is to think about how the system as a whole works and to work with other agencies and ministers. It is responsible for making sure that the budget processes are flexible enough to allow long-term investment decisions.

The Treasury also needs to understand how things will work throughout the system. This is important because some of the social investment proposals will involve a large number of different parties. Practical tasks the Treasury is involved with include setting up the new Ministry for Vulnerable Children, Oranga Tamariki.

We heard that the buy-in from the rest of the state sector for the social investment concept is incredibly strong, because of the complex nature of the issues people in all agencies are grappling with. Increasingly, there is a focus on targeting the populations who are most disadvantaged and a strong commitment from agencies.

**Breakdown of government spending**

We asked for an explanation of the government spending that is grouped into two fairly generic categories: $9.7 billion is described as “other” spending and $4.1 billion as core government spending. The secretary said that five-sevenths of government spending goes into the social sector, which includes education, social development, health, and superannuation. The remainder, classified as “other”, covers everything else, including defence and the justice sector.

We discussed the fact that social welfare spending is nearly overtaking education and that, if government spending on these sectors remains fairly stable, this would happen in the next one to two years.

**Coordination between monetary and fiscal policy**

We discussed part of a speech the secretary made where he said that international experience during the past 10 years had cast increasing doubts about the effectiveness and efficiency of monetary policy alone in managing the economy’s performance relative to its current growth potential. He said that relying on monetary policy alone also leads to a misallocation of resources towards investments, such as residential investment, that are less productive.

The secretary told us that, by using the word “international”, he was referring to policy elsewhere in the world and not in New Zealand. Overseas—for example, in Europe—too much weight has been put on monetary policy and not enough on fiscal policy.

The secretary considers that, although we do not need fiscal stimulus in New Zealand, good coordination between monetary and fiscal policy is important and that this has been achieved in New Zealand.

**The structure of New Zealand’s economy**

Some of us raised concerns about the fundamental structure of New Zealand’s economy. Particular concerns were that a small number of well-off New Zealanders can borrow historically cheap money to buy an investment and not be taxed on the profits; that banks are fighting for deposits, the interest from which is taxed; that banks seem to ignore changes to the Official Cash Rate and do not pass them on to their customers; and that the capital market is shallow and a lot of New Zealanders do not have any confidence in it.

The secretary responded by saying that the economy has been changing, along with New Zealand’s markets. Not even 10 years after the free trade agreement was signed with China,
more investment is being made in high-end activity, including manufacturing and the agricultural sector, and the degree of services activity in the economy has also been growing.

Therefore, we need to make sure that New Zealanders have adaptable skills so they can cope with change and seize opportunities to increase the return from traditional industries and exploit new ones.

The secretary is optimistic because New Zealand has positive growth prospects, debt under control, high labour-force participation, low unemployment, and a market in Asia that is not looking to be protectionist.

Three major risks to the New Zealand economy during the next 12 months

When we asked the secretary what he considers to be the three major risks to the New Zealand economy during the next 12 months, he said that they would be external risks. He worries about the growing mood of protectionism, weak economic growth around the world, and the danger of hesitating and not seizing opportunities.

Investment in housing

We asked the secretary whether he considers there to be a disproportionate amount of investment in the housing sector in New Zealand. Mr Makhlouf said he worries about the level of household debt, which tends to be very connected to housing. However, he is not surprised at the degree of investment in housing, and people make their own choices about where they put their money.

The secretary said that, although there have been some spectacular returns in the stock market recently, he is not sure whether the New Zealand public is aware and confident enough about investing in financial products such as stocks and shares. In his view, people should be encouraged to have diversified portfolios and to invest with a view towards the medium-to-long term.

Strategic financial management capability

We wanted to know more about the Treasury’s project to lift strategic financial management in the public sector. It has developed a work programme with the Office of the Auditor-General to support agencies to lift capability and performance in this area. A chief government accountant position has been created in the Treasury to head the finance profession and work with chief financial officers throughout the public sector on a range of issues.

Nine important finance positions in the public sector have been identified, and chief executives need the endorsement of the State Services Commissioner, which has been delegated to the Secretary to the Treasury, before appointing any of those chief financial officers (CFOs). Chief executives are being encouraged to see CFOs as their chief performance officers and to have them at the top table.

Chief economics adviser position

The Treasury has changed the job title of its chief economist to chief economics adviser. When asked about this, the secretary said that he disagreed with criticism that the Treasury is dumbing down economics. He considers that the change has had the opposite effect. He says some of the Treasury’s work is at the forefront of economic thinking—for example, work on living standards.
In the secretary’s view, the last 25 years of economics have seen too much emphasis put on mathematical and algebraic certainty to deliver outputs and not enough emphasis on the decisions that people make.

**New Zealand’s poor productivity performance**

We discussed New Zealand’s poor productivity performance and the challenge this presents. New Zealand’s productivity performance has been rated the fourth worst in the OECD since 1996. We were interested in the Treasury’s view of the reasons for this.

We heard that it is a difficult issue involving several different factors, including the size of New Zealand markets and their distance from others, and the small size of many New Zealand firms.

Introduction
This report summarises the main points from the Government’s audited financial statements for the year ended 30 June 2016 and from our discussions with the Minister of Finance, who is responsible for the statements.

Fiscal position for the year ended 30 June 2016
The financial statements of the Government provide a consolidated view of the revenue, expenses, assets, and liabilities of all government entities. The document compares the results for 2016 against those for previous years and against the forecasts the Treasury prepared for the 2015 and 2016 Budgets.

Surplus continues in 2015/16
The Crown’s operating balance before gains and losses (OBEGAL) increased to $1.8 billion in 2015/16, compared to $414 million the previous year. This improved result was because of further growth in nominal GDP (leading to a higher tax take) combined with lower expenditure growth. The Minister of Finance said that surpluses are forecast for the foreseeable future. At $70.4 billion, tax revenue was $3.8 billion, or 5.7 percent higher than a year earlier.

Although operating cash-flows were positive, capital payments of $4.6 billion resulted in a residual cash deficit of $1.3 billion. To fund this cash deficit, core Crown expenses increased by $1.6 billion (2.2 percent) to $73.9 billion. However, as a share of the nominal economy, these expenses were equal in value to 29.4 percent of GDP, slightly less than the figure of 30 percent of GDP the previous year.

Offsetting the operating balance deficit, revaluation of the Crown’s property plant and equipment resulted in a $2.9 billion increase on the previous year’s net worth, to $89.4 billion.

The 2015/16 results generally compare favourably with the forecasts prepared by the Treasury for Budget 2016.

Kaikōura earthquake damage at $2–$3 billion
We heard that preliminary estimates of the total damage from the Kaikōura earthquake of 14 November 2016 were at the higher end of between $2–$3 billion. Damage is still being assessed, and it is likely that, as the Christchurch earthquake experience had shown, more damage will become apparent over time.

We wanted to know what effect the $3 billion earthquake will have on the Government’s spending. We heard that the earthquake will slow debt repayments and that decisions will need to be made about whether to make other trade-offs. However, with a growing economy and population, and relatively low debt levels, capital infrastructure is unlikely to be delayed.

The Minister said that we need to be prepared at all times for events that test our resilience. Shocks, such as the Kaikōura earthquake, are not unusual and almost a permanent expectation in a small, open economy. Whether it is earthquakes, droughts, or financial crises of some sort, they have occurred on a regular basis during the last 10 years.
Vulnerability in the housing sector

We asked the Minister whether, after eight years in charge, he is concerned about comments in the Reserve Bank's Financial Stability Report of November 2016 that increasing and spreading vulnerability in the housing sector represents a significant risk for the economy.

The Minister said that the Government considers that this is being driven by a constraint on supply, misdirected planning, and a misunderstanding of the effect of desirable urban planning objectives on household incomes.

The Government has introduced policies to deal with the effects of the housing situation, including HomeStart to support first-home buyers, and a macro-prudential framework that gives the Reserve Bank tools to deal with credit growth in the context of financial stability. However, the strongest focus is on supply, and the Auckland Unitary Plan has been the most positive outcome in terms of getting enough supply to match the demand.

Considering the significant risk the housing sector represents, we wanted to know whether the Government is intending to do anything to address demand. The Minister spoke about two factors that are influencing demand.

The Minister said that the lowest interest rates in 50 years mean that the cost of debt servicing is lower than it was seven or eight years ago, when people were borrowing less but interest rates were double. He also said that strong population growth continues to surprise forecasters. He did not see any way to fix house prices by trying to suppress demand from households for credit.

We asked whether the Government would consider forms of taxation, or a ban, on overseas buyers. We heard that the Government has not seen a convincing case showing that these sorts of measures will change the dynamics of the housing market.

Spending on social housing transfers

During the last two financial years, spending on social housing ownership transfers of Housing New Zealand homes to community housing providers has totalled about $10 million, with about half of that being spent on consultants. We suggested that this spending has not yet resulted in any real action, and we wanted to know whether the Minister is satisfied that this represents value for money.

We heard that work on the original idea is on track. This was that, to invest, you had to spend a bit up front to build the machinery, and then subsequent transactions would cost a lot less.

The process for transferring the ownership and management of 2873 properties in the Tāmaki region to the Tāmaki Regeneration Company was long and expensive because it took time to figure out what was important and how to execute the transfer—the legal structure of the transaction had to be created for the first time. A transaction in Tauranga is to be finalised when the legal process has concluded.

The Minister expects that, from this point, although each transaction has some associated ongoing costs, the kind of investment that was made during the past two years will no longer be necessary.
Alternatives to GDP as a measure

We were interested in work the Treasury has been doing on indicators that might give a more sophisticated view of the state of the economy and people’s well-being than a GDP measure. Although the Minister said we should talk directly to the Treasury about this, he said that the work is being done at a lower level than GDP and will deliver a wider range of indicators.

He suggested that work on the environmental balance sheet would be of interest to the Green Party—in particular, the idea of comparative conservation value. This is, for example, how you allocate money for cleaning up rivers and calculate the return on that, as well as the environmental reporting required by statute.

An example of an organisation that works with a wider range of measures is the Legatum Institute, which does a prosperity index assessment of 149 countries, including New Zealand, rating each country’s performance in nine different areas. In 2016, the institute rated New Zealand as having the world’s highest level of prosperity, achieved with only average wealth for a developed country.

The Minister said that we could argue about the measures and, although GDP has its weaknesses, it is consistent over time. It is also important because of its direct connection to tax revenue, which also has a direct connection to how much is spent. This is pretty important to people relying on services or income from the Government. We heard that the Government would need a very good reason to change measures.

Low per capita GDP

We discussed the fact that labour productivity is pretty flat, and per capita GDP, an important measure of people’s well-being, is 8 percent below the OECD average. The Minister said that, although this is forecast to improve during the next few years, the Government is addressing areas where it has direct control, such as the productivity and efficiency of government services.

The Productivity Commission’s report of November 2016, Achieving New Zealand’s Productivity Potential, is being looked at closely to see what can be taken from it for the Government’s Business Growth Agenda, a programme of work that seeks to build a more competitive and productive economy.

Spending on health, education, and law and order

We wanted to know why spending on health, education, and law and order as a percentage of GDP has gone down, suggesting that this has resulted in young New Zealanders underperforming in maths and science, and in Police and health resources being stretched.

The Minister said that, if you look at the spending historically, the levels are about where you would expect them to be and that success is not measured by the level of spending. However, the Minister said that, in the education sector, there are parts of the community where more resources need to be applied. However, this needs to be part of a framework where you can see whether that money is making a difference.

Spending on superannuation

We discussed criticism that superannuation is unsustainable at the current levels. The Minister said that, no matter how many older people there are, without enough non-work income, those people will need an income from the Government to live on.
He said that the outlook has changed a bit compared with predictions 15 years ago about the cost of superannuation, because the workforce participation rate for people over 60 is now much higher. It is now 24 percent, compared with 8 percent some years ago.

Lower interest rates mean people are working to supplement their income, which is increasing GDP and lowering the Treasury’s debt projections. The Minister said that, if New Zealand can stay on the track it is on, which anticipates lower long-term spending, debt will continue to reduce.

The Minister considers that you cannot change much about the cost of the aging population. Older people’s health costs will increase, and when it comes to providing an income you can either pay less per person or pay fewer people.

We discussed whether, because the problem does not seem to be changing, a future government would adjust pension settings. The Minister said that there is no reason why a government would not and that the settings may change somewhat over a long period.

However, he considers that the scope for change is relatively limited, because you will still have a significant portion of your population who do not have income from work and will need a basic income to live on that is somewhat relative to the rest of the community. However, the options of means testing and changing the age remain.

**Three big risks to the New Zealand economy**

We asked the Minister what he considers to be the three big risks to the New Zealand economy during the next 12 months. He said that the risks are mostly offshore and include events in Europe—a series of upcoming elections in Italy, the Netherlands, and Germany; the potential risk that Europe will unravel because of Brexit; and uncertainty about what the results of the US election will mean.

A second risk is Chinese credit, which is growing at unprecedented rates that cannot go on forever. A third risk would be the effect of these things on Australia, our biggest trading partner and historically a very high-performing developed country.

**Interest rate increases**

We were interested in whether the Minister considers that domestic interest rate increases pose any risk to the New Zealand economy. The Minister said that a bit of normalisation of interest rates would not be a bad thing, making people realise that they are taking a risk when they borrow a lot of money.

We asked the Minister what he would consider to be a moderate increase in interest rates. He said that he would consider 2 percent to be a big increase and 1 percent to also be significant. People with savings also want to see more return on their savings, because this income has halved in the last five or six years. The risk would be interest rates rising sharply, but the Minister does not see this as likely.

**Changes in house-price inflation and migration numbers**

In its November 2016 Monetary Policy Statement, the Reserve Bank projected that, by about 2018, annual house-price inflation will be under 10 percent. By 2019/20, annual house-price inflation will be about 2.5 percent.

These figures are based on the provision of additional housing supply and net migration dropping by roughly two-thirds by 2019/20. We asked the Minister where he sees house-price inflation, housing supply, and net migration going in the future. In his view, migration
may have remained higher for longer because of the tight Australian labour market. However, his expectation is that “fundamental economic gravity” will eventually have an effect.

About housing supply, having planning rules that will make housing cycles “less sharp and lower amplitude” would be a good thing to work on. In the next year or two, the Government will become the major supplier of medium-density housing. The new unitary plan will allow housing on existing Government land holdings to increase from 30,000 to 69,000 houses.

**Targeting funding to those most in need**

Budget 2016 provided targeted educational funding for children most at risk of educational underachievement. We wanted to know more about the rationale behind this and whether future Budgets will continue the policy in such areas as social welfare, education, and health. The Minister said that this would continue to the extent that it is feasible. However, constraints often mean that what seems like a great idea in theory does not work in practice.

Sometimes achieving a successful intervention for children who really need it most—for example, in education—means paying two or three times as much. We heard that it can be quite hard to deliver targeted education to a child in a school environment, but work on a social investment toolkit is making it clearer where intervention is needed because you can see the pay-off.

We discussed long-term trends in income and wealth distribution in New Zealand in light of recent data that real incomes have gone backwards during the last 10 years because of the cost of living, house-price inflation, and changes in the economy and the employment market from automation.

We asked the Minister whether he considers that there is a larger problem to deal with beyond the highly targeted programmes the Government is investing in. In his view, housing is the single biggest factor affecting some parts of the population.

Although the cost of debt servicing is relatively low, the size of people’s debts means it will take them a long time to clear them. The effect of housing costs is very visible through the money the Government spends on housing subsidies.

The Government’s response to housing pressure has been to deal with demand, to try to smooth the path for first homebuyers, and to deal with structural issues with the market to help lower- and middle-income families achieve a better relationship between their incomes and housing costs.

**The operation of cooperatives in New Zealand**

In light of our discussions with the Secretary to the Treasury about cooperatives and their contribution to productivity growth, we asked the Minister whether the Government has any plans to investigate the nature of cooperatives, traditionally a low investor in research and development, on productivity growth in New Zealand.

The Minister considers that ownership rights are a fundamental issue, with shareholders in cooperatives being the owners of those businesses and able to decide what business form they want. Shareholders would argue that cooperatives are the form that has worked for them and that they have different objectives than public servants who want to see more spending on innovation.
The Minister said that the Government needs to continue to pay attention to cooperatives created by statute.
Appendix A

Committee procedure
We met on 30 November 2016 and 15 February 2017 to consider the 2015/16 Annual review of the Treasury, and the Financial statements of the Government of New Zealand for the year ended 30 June 2016. We heard evidence from the Treasury, and the Minister of Finance, Hon Bill English. We received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw
Michael Wood

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


The Treasury, responses to Supplementary Questions 2015/16, questions 103–117.
Corrected transcript of hearing of evidence 30 November 2016


Finance and Expenditure Committee

Members

David Bennett (Chairperson)
Chris Bishop (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw

Witnesses

Hon Bill English, Minister of Finance
Gabriel Makhlouf, Secretary of the Treasury
Struan Little, Deputy Secretary, Budget and Public Services, the Treasury

Chair Welcome to the committee. If you want to give us a little bit of a briefing, then we can ask questions. We’ve got till 12.15—a good hour for you. So please feel free to give us a—

Hon Member Talk for the whole hour.

Hon Member Feel free to finish early.

Makhlouf Actually, if I could start by introducing, to my left, Struan Little, who’s the Deputy Secretary, Budget and Public Services. Normally I take this opportunity to provide the committee with the latest information on the economy but, with HYEFU being published next week, I thought I would instead talk briefly about the economic and fiscal impacts of the Kaikōura earthquakes.

The earthquake on 14 November and subsequent aftershocks have definitely had an effect on the economy and the Government’s fiscal position, but there is uncertainty, at this time, over the magnitude and timing.

Preliminary estimates suggest that direct fiscal costs of the earthquakes could be around $2 billion to $3 billion, but some of this is expected to be funded by insurance proceeds or existing resources. But it is, of course, the
people, businesses, and communities in North Canterbury that have borne the brunt of the quakes, and I want to acknowledge the difficulties they are going through and also recognise the incredible way people have pulled together. But, despite this heavy regional impact, it’s our assessment at this stage that the earthquakes won’t have much impact on economic activity at a national level. And the OECD has recently taken a similar view.

The areas most affected by the earthquakes—the Kaikōura and Hurunui districts—make up around 0.4 percent of all New Zealand households, whereas, for comparison purposes, the areas hit hardest by the Canterbury earthquakes accounted for around 10 percent of all households.

Kaikōura and the surrounding region is a beautiful area for tourists but accounts for only about 1 percent of total tourist spending in New Zealand. Tourism and primary production are the industries most likely to be affected because of damage to key infrastructure and disruption of access to the region. There was, of course, damage in Wellington too, with some commercial buildings in the city centre and part of the port being put out of action.

[Inaudible] effects are expected to be felt further afield as well. The extent of damage to the road and rail network in the north-east of the South Island will affect not only that region but also the transport of people and freight between much of the rest of the South Island and the North Island. The disruption of transport links through the Kaikōura region is expected to add costs to freight and travel.

There may also be wider impacts on tourism elsewhere in the country if people cancel, postpone, or redirect trips within New Zealand because of the disruption or the risk of more earthquakes. Nevertheless, at this stage this effect has thought to be relatively small and the overall impact on tourism will be less than the Canterbury earthquakes.

Over time the negative impacts of the earthquakes on economic activity are expected to be offset by repair and reconstruction kicking into gear. To some extent, reconstruction work is likely to be at the expense of other work in the construction sector or it may lead to higher costs for things like materials or local wages.

As I mentioned earlier, the earthquakes will result in additional cost to Government. As with the Canterbury earthquakes, spending is likely to include providing short-term support and recovery systems, contributing to the reconstruction of infrastructure, repairing Government-owned property, as well as meeting the costs of claims to EQC for residential property damage, assuming the Crown guarantee is called.

The nature of the damage is different from the Canterbury earthquakes with significant costs for the road and rail networks in the regions. Damage in Wellington will also result in costs.

To recap, preliminary estimates based on available information suggest that the direct fiscal cost of the earthquakes could be in a range of $2 billion to $3 billion, which would be a mixture of operating expenses, such as EQC
claim costs, and capital expenditure for work such as rebuilding State
highways. The timing of these costs is uncertain.

Finally, I should add that the estimates don’t include future decisions the
Government may make about the nature of the recovery.

Robertson Thanks very much, Secretary. Are your forecasts a load of nonsense?

Makhlouf We published on Budget day, actually, an assessment of our forecasting and, if you have a look at it, it actually shows that we do a very good job. I’m very proud of the team that works on our forecasts. We’re one of the best forecasters.

Robertson So how do you feel, then, when you see the Prime Minister go on television and say that the Treasury can’t get it right in 44 days let alone 44 years?

Makhlouf Well, I watch television and Stuff like the rest of us, and I take what I watch on television with a pinch of salt. What matters is what the facts are, and the facts were published on Budget day, as I said. So forecasting’s actually quite a difficult skill and I’m just proud that we do a very good job.

Robertson So, just around that—but I often take it that you stand by the forecast you’re making, not only in terms of your more shorter-term ones but also the long-term—

Makhlouf I think it’s important to be clear that there’s a difference—and I know this might sound a bit too geeky—between forecasts, which we do for a 4-year period, and projections, which we do for a 40-year period, and they’re quite different. Projections are based on assumptions, which are just projected forward, whereas forecasts are our best judgment as to what might happen over a 4-year period. There’s an important difference there. But I stand by—just to answer your questions.

Robertson Is that all I’m getting, is it?

Chair Jami-Lee Ross.

Robertson Hang on. So are you now changing the way you do questions?

Chair We’ll come back to you. The tone of your questions—

Robertson Oh, for goodness’ sake, David, I’ll decide what the tone of my questions are, thank you. Hang on—no, no, no. Are you changing the way that you have run this session for the last 3 years now?

Chair Are you going to show respect to the submitters?

Robertson Of course I’m going to show respect. It’s the Prime Minister who called it a load of nonsense, not me, David.

Chair If you show respect to the submitters—

Robertson With respect, I am showing respect, and I’ll carry on with my questions, if that’s all right.

Chair Jami-Lee Ross and then we’ll come back to you.

Cosgrove Point of order. Two points: tell the committee where the questioner didn’t show respect for the submitters by asking them to reflect on the opinion of
somebody else, maybe the Prime Minister. And, secondly, point to me the Standing Order which allows you to rule out questions based on, to quote you, “tone”.

Hon Members He hasn’t ruled it out.

Cosgrove Or to change the way you chair this meeting and accuse the member of asking inappropriate questions—

Chair I never accused anyone.

Robertson Yes, you did.

Cosgrove Yes, you did.

Robertson Now, either we go back to the way we normally do it or we’re going to end up with a very, very difficult committee, David.

Cosgrove Because what you appear to be saying is that as long as we’re asking questions you want asked—

Chair We’re coming back to you, OK? I think the tone of your questions—

Robertson Listen, you don’t get to decide the tone of my questions. If you want to rule my questions out, you do that.

Cosgrove You’re a fool.

Robertson OK? So are we going to carry on?

Chair Yes. Jami-Lee Ross.

Ross Good morning. While we’re talking about projections: back in 2009 Treasury projected debt to be over 200 percent of GDP by the mid-2040s. Now those projections are significantly lower, about half of that. Can you run us through where you see those debt projections going in the future and what the factors point to to suggest why the net debt has reduced so significantly?

Makhlouf The difference between 2009 and now is the Government’s taken a number of steps to address issues that we flagged in 2009. And as you know, and as the committee knows, the Government has a fiscal strategy that is looking to reduce net debt to 20 percent of GDP by 2020 and that is probably one of the most significant—why that’s happened, as well as, of course, the economy has grown.

Ross In terms of the future, other than the earthquake costs, which we have to decide where that comes from, do you see any other risks on the horizon that could impact those projections and see them potentially change?

Makhlouf Are you saying our 40-year projections or our—

Ross Well the projections

Makhlouf —our 40-year projections. Well, I think what we have essentially said in 40-year projections are, you know, there’s a particular track that we’re projecting. The Government has choices that it can make. The significance of the most recent long-term fiscal statement that we published is that we showed that economic growth as well as decisions on fiscal spending have
an impact on the long-term picture. As we did in 2009, we know the Governments in the future will make decisions to address a debt track that—you know, and make it lower. We know that will happen, we knew that in 2009 and we know that today.

Ross On the same theme of protections, but moving to a slightly different topic: the Reserve Bank is projecting that house-price inflation which drop markedly in the next few years. Does Treasury have a view that aligns with the Reserve Bank or an alternate view about house-price inflation going forward into the future, in the next few years?

Makhlouf Well, not specifically about house-price inflation, we tend to use the Reserve Bank’s numbers, we obviously make our own judgments about them as well. The key determinant of house-price inflation is going to be whether increased supply comes on stream. At the end of the day, that is the Inaudible, particularly in Auckland, Inaudible house prices, and supply needs to improve to address those. So there’s a lot of activity going on by central government, by local government, by the private sector, to address those issues. It’s not a Inaudible lots of people, and I was delighted that the Auckland Unitary Plan went the way it did because it gave it direction which, from our perspective, is a positive one.

Robertson In this financial year, or last two financial years, you’ve spent the best part of $10 million on the social housing transfers, but no actual houses have been transferred. Are you satisfied that that’s value for money for the tax payer?

Makhlouf Well, at the moment, yes I am, for a number of reasons. I mean, I think it is important to bear in mind that what the Social Housing Reform Programme is about is pretty innovative across the world. We are dealing with a large asset class, we’re dealing with people. We’re looking to create a market which will improve the quality and supply of social housing. We’re looking to secure tenants’ rights over a 25-year period, so it’s complicated. We don’t necessarily have, or we don’t have, all the skills we need to execute that programme, so a lot of that cost is to bring in those skills. We’ve learnt lessons from the initial transactions. I’m sure we’ll learn lessons from the forthcoming ones.

At the moment I think we are doing pretty well. I know that there’s a view that nothing has happened, but I’d just make two points on that. One: the particular transaction in Tauranga is, at the moment, proceeding, although there is a legal process in play right now. And we tend to forget that the Tamaki regeneration programme, which has seen, potentially, two and a half thousand houses turned into seven and a half thousand houses in the next 10 to 15 years is also a big part of this, and that has proceeded. Would it have been better to have seen lots of things happen faster? Undoubtedly. But I think it is more important that we do things well.

Robertson About five and a half million of that has been on consultants. Is that likely to continue? That seems to be a very, very big figure.
Makhlouf: I expect some of those numbers—some of those costs are upfront investment, helping us to learn about the issues and how to execute those sorts of transactions. So I’d expect those numbers to fall in relative terms as we go forward.

Robertson: Individually, within that, you’ve got an individual contractor paid $212,000 for the transfer of the Invercargill and Tauranga houses and it hasn’t happened. Surely you can’t be satisfied with that.

Makhlouf: As I said, we learned lessons. The Invercargill transaction was one that was proceeding pretty well, and then the other party decided, actually, they didn’t want to continue with it. Though, yes, it would have been much, much better if we’d gone through with that. On the other hand, I think part of the point of those processes is to make sure that all the parties know exactly what is expected of them, and, on occasion, people, organisations, having gone through the process will realise that, actually, maybe they don’t want to take on the challenges that were likely. I wouldn’t, by the way, rule out that Invercargill comes back on to the work programme.

Robertson: But there isn’t anyone at the moment who wants to buy them.

Makhlouf: Well there are people who are interested in seeing it come back, but I think we’re at a very early stage.

Robertson: One more question on that: you just mentioned there was a legal process in play in the Tauranga situation. I imagine because it is a legal process you’re going to say you can’t tell me about it. But is that likely to—and is that likely to delay that programme?

Makhlouf: Well, as with all these things it depends what the judge decides. I’m afraid I can’t remember the precise legal issue, but I think we’re expecting a decision next week, possibly. But is that likely to—what is it, if you can, and is that likely to delay that programme?

Makhlouf: Well, as with all these things it depends what the judge decides. I’m afraid I can’t remember the precise legal issue, but I think we’re expecting a decision next week, possibly. But, obviously, at the moment the Crown’s confident that it will succeed, that it will get the judgement in its favour, but, obviously, if it doesn’t, then it will have a delay.

Robertson: I just want to go on to a different matter: you gave an interesting speech on 3 November around a number of matters. I just want the quote a little bit of it and get you to explain a bit more about what you mean and then what you think the solutions to this might mean.

So you’re talking about monetary policy and you say: “International experience over the past 10 years, and maybe more, casts increasing doubts about the effectiveness and efficiency of monetary policy alone in managing the economy’s performance relative to its current growth potential. In fact, relying on monetary policy alone to do the job risks the longer-term growth potential of the economy as well, by leading to a misallocation of resources towards investments, such as residential investment, that are less productive.”

Are you essentially advocating two things there? One is that you think the Government should be more proactive in managing the economy through fiscal policy. And two, specifically, you clearly are talking there about concerns about over-investment in housing. And are you proposing specific, or do you have specific, policy alternatives in mind?
The key word in that paragraph you quoted, and thank you for reading my speeches—

I even highlighted it. I think that makes three of us who’ve read it now.

The key words are at the beginning, because I use the word “international”. What I’m saying there really, and you can pick Europe as a good example—I mean, I think in Europe too much weight has been put in monetary policy, and insufficient weight has been put on fiscal policy. As a result, I think we’ve seen real challenges imposed on central banks, and I think elsewhere in the world—elsewhere in the world, not in New Zealand—too much weight has been expected, too much has been expected from monetary policy. I don’t think that’s the case in New Zealand. I gave another speech, by the way, when I published—

Must have missed that.

—when we launched the long-term fiscal statement, and I explicitly said: “We don’t need fiscal stimulus.”

Yeah, no, I take that point. What about the—

That was my, essentially, my point: that it’s important—I think I go on to say in there that it’s important that there’s good coordination between monetary and fiscal policy and I think we’ve seen that it in New Zealand.

OK, so you don’t actually say that here. So that is, I mean, it’s pretty easy to draw that—you do say the fact that there should be better coordination. You don’t actually then go on to say that there is in New Zealand, so.

Well, I think I do say that there has been post-GFC.

Right. Just come back to that second part of my question, my first question. The issue around misallocation of resources: you’re saying you’re not talking about New Zealand there?

I think in that paragraph I’m talking about elsewhere in the world. Is your question do I think resources in New Zealand are allocated well? Resources in New Zealand are allocated according to the settings that we have got and the incentives that are in play. We’re always looking to make sure that regulations and rules are putting the right incentives in place to have a sustainable, inclusive economy that grows over time and improves the living standards of New Zealanders. There are undoubtedly imperfections in the system, and you mentioned housing, and we know that the planning rules have been a big factor in the very, very challenging housing issues that we’ve got right now, especially in Auckland. So, that particular setting, which, you know, is being changed.

Can I just ask a very specific question, because we will have to move on to other people. Do you believe there is a disproportionate amount of investment in New Zealand in the housing sector than, as the Secretary of the Treasury, you would be comfortable with?

I, certainly—one, I worry about the level of household debt, which tends to be very, very connected to housing. I’m not surprised, at one level, at the
degree of investment in housing. People make choices about where they want to put their money. If people had [Inaudible] much, much deeper capital market. We’ve seen some spectacular returns in the stock market recently. I’m not sure whether the New Zealand public is confident in that, or aware enough about investing in financial products like stocks and shares, which, if you compare the United States to us I mean it’s a different [Inaudible]. So, as a general rule, people should be encouraged to have diversified portfolios.

Robertson Is enough investment going into the productive economy in New Zealand?

Makhlouf I think it will be difficult to say it’s not going into the productive economy.

Robertson I beg your pardon.

Makhlouf I think it will be difficult to say that today we’re not having enough investment in the productive economy. The economy is doing pretty well, so it depends whether you are talking about it long time horizon. At the moment my view is that we’re investing in the right things, we need to continue to invest with a view towards the medium to long term. That’s our big challenge, actually, and the Productivity Commission published its—I think they call it a narrative—on productivity earlier this week, and I think productivity is one of the challenges for us as a country.

Shaw Thank you, Mr Chair. Thank you, Mr Secretary. I actually just have a couple of supplementary questions from some of the previous ones. Just in relation to house prices, we were talking about the possibility of a correction in house-price inflation. I just want to talk about the possibility of a house-price correction because some of the banks, I think including RBNZ, have said that there is a reasonable probability of a downward correction. Opinion seems to vary as to the timing or severity of that, and I was just wondering: what’s Treasury’s opinion?

Makhlouf I know you’ve got the benefit of talking to the Governor in a couple of hours, and I haven’t had a chance to properly read the Financial Stability Report that was just published, but it’s one of the concerns that we have. On the other hand, the bank appears to be reasonably confident about the resilience of the financial system, and I think that’s the, sort of, eye on the bank—the Reserve Bank—to do its job, basically.

Now, do we think there’s going to be a big correction? Well, I think the combination of macro-prudential interventions that the bank has made, the changes that are emerging, planning regime, sentiment which we’ve noticed a little bit has had a slight tempering effect on prices. We just need to be extremely—we’re not predicting a big price [Inaudible] demand is not going to disappear, unless there’s some very big, unexpected shock. We just need to keep a very close eye on [Inaudible] the bank is doing that.

Shaw I think that I agree with you, that their focus on the resilience of the banking system isn’t quite the same as the ability of households—the resilience of households. So I think that was really the concern, that households may be exposed to a sudden correction, which the banks
themselves would be able to wear, because they’ve built up the systems to do that.

Makhlouf  At the moment it looks like demand for housing is going to be sustained for a while, and it would be an unexpected shock that would have an impact on demand. The other concern is if interest rates suddenly went up much faster than anticipated, but there’s no indication [Inaudible] in the bank’s Monetary Policy Statement. I mean, they do see inflation coming back to the mid-point in 2018, so I don’t—there’s no indication there that there’s going to be a sudden correction.

Shaw  And in relation to—you were talking about demand in Grant’s questions about house prices as well. I mean, obviously, we have a supply problem which is creating that, but also we do note that there is a demand side issue, particularly with global capital and the amount of quantitative easing slush money that’s, kind of, floating around. That, actually, Auckland is not isolated, that it’s one of a number of international cities where housing is essentially a financial instrument for a global market place. And so supply is only going to have a limited impact on prices when that continues to be the case—these global capital are looking for a safe place to park and that we seem to provide one through the settings here. I know in your comments to Grant you were talking mostly about supply side, but I wonder if you have any comments about that view of the demand side of the equation?

Makhlouf  Well, I did talk a little about demand, because I think what the Reserve Bank has done with its macro-prudential [Inaudible] brightline test in [Inaudible] has also had a slight impact. The withholding tax regime that came into effect in July has had a bit of an impact. I think your—in terms of international flows being attractive to [Inaudible], that’s certainly the case although, I think the LINZ data that was published [Inaudible] are to non-tax residents.

New Zealand’s an attractive place, not in terms of property, but just, you know—it’s just attractive as a place where there’s growth. There are positive interest rates, which is not a statement you would normally expect anybody to think remarkable, but in the current world it is remarkable. Our debt is pretty under control, unlike in other parts of the world. So markets are actually—which is one reason why our currency is doing [Inaudible]. Markets find New Zealand, a place where they want to invest.

I mean last week—last 2 weeks, just after the earthquake—we borrowed bonds and we were five times oversubscribed. Even though you would have thought this would have been a bit of a shock that would have turned people off, well, it didn’t, it appears. It’s a good to place to be. It would be a better place to be if, actually, people had access to the sort of houses they want to live in, and we weren’t worried about—we in the Treasury weren’t worrying about house prices. I suspect there are people who live in the houses who aren’t worried about them at all.

Shaw  So I know it’s a small number of—I mean, as you’re saying it’s a nice problem to have right? But it’s still a problem. That it’s a low number of transactions, but when there is functionally an infinite supply of cash behind
those transactions in an asset bubble, then surely the impact on house-price inflation is quite severe, because at the margins it would have a highly distortionary impact because of the scale of capital available to buy in.

Makhlouf  Yeah, but there’s also a limit to how much capital can come in. Our market is, at the end of the day, [Inaudible].

Bishop  Just want to briefly ask you about social investment, and I know that, a couple of years ago, you went to put a request for proposals out to, I suppose you would say, the market for how [Inaudible] your ongoing work. I know that you’re finalising your organisational strategy for the forthcoming year around how the Treasury might lead on that. So I guess my question is: what is the Treasury’s role in this whole-of-Government approach to rethinking the way in which we deliver social services? What’s the Treasury’s role in that?

Makhlouf  Let me ask Struan to [Inaudible] as he oversees this whole area. The one I’d just want to comment on that is you mentioned the long-term fiscal statement—which I hope you’ve all read. And, if you haven’t, I also encourage you to read the background papers because one of the things, one of the background papers that we published, is specifically about what we see as the potential impacts from social investment, and it really explains or it sets out why we think this is such an important area for us to invest in. Struan.

Little  Thanks. It seems to me that the Treasury’s role is really to think about how the system as a whole works, and work with other agencies. Within that, we’ve got three or four different roles. [Inaudible] one level, I think we’ve got an obligation to work the other agencies, the social agencies, and the State Services Commission [Inaudible] in the overall framework and work with Ministers. Then below that, I think there’s some important things [Inaudible] to make sure that the budget processes are flexible enough to actually allow long-term investment decisions [Inaudible].

I think there is also a role for us in terms of helping working with other agencies in terms of setting some of the rules of the game. Some of these social investment proposals are going to involve a large number of different parties, NGOs [Inaudible] and it’s important that there is some understanding across the system about how the rules [Inaudible] are going to work.

And then I think there are some really practical things that we can do to help get some of the specific initiatives [Inaudible] and I think a good example of that currently is the setup of the new vulnerable children’s entity, Oranga Tamariki, and that’s working with the particular agencies to make sure not only that those initiatives get across the line [Inaudible] concepts of social investment [Inaudible].

Bishop  What would you say the buy-in from the rest of the State sector is about this concept? Is it uneven, is it full-fledged endorsement?

Little  I would say incredibly strong, in a genuine sense, because the nature of the issues that we’re grappling with as a country now are very complex issues
that work right across agencies. So increasingly there’s a focus on targeting the populations who are most disadvantaged [Inaudible] of those agencies [Inaudible] difficult to work across the boundaries of those agencies [Inaudible] lies behind the social investment. There is a very strong commitment from my personal experience [Inaudible].

Seymour I just was curious about just a couple of technical things: in these statements you’ve got $9.7 billion described as “other” spending, and I just wondered—also, core government services at 4.1 billion. I guess, just for people reading that, they might think: “How can you spend 14 billion in two fairly generic categories?”. And I wondered if you could just give a quick explanation of what exactly those two mean.

Makhlouf Struan’s got the snapshot. I haven’t got my glasses on.

Makhlouf As you know—around five-sevenths of Government spending, basically, goes on the social sector. It goes on social development, on education, on health, and on superannuation. The rest, basically, the “other” literally covers everything I haven’t just described; so it covers defence, it covers the justice sector, it covers—

Seymour Well it can’t be justice because law and order’s a separate category, according to—

Makhlouf No, no—well, that’s 3 billion, 3.184 billion. I can give you lots more detail.

Seymour Yeah, I just think people would look at ten billion bucks as “other” and think: “What’s that about?”. But I noticed you’ve got social welfare spending nearly overtaking education—12.3 billion for superannuation, education at 13.2. Can you tell us how long it will be before super spending overtakes education?

Makhlouf I haven’t done the arithmetic. It obviously depends on how much the Government decides to spend on education.

Seymour So that’s fairly stable, whereas super rises at about a billion a year. So, in the next two years, I guess.

Makhlouf You’re assuming that the Government’s not going to spend any more on education, and—

Seymour Well I don’t think it’s going to increase education spending by 7 or 8 percent a year.

Makhlouf Well, I can’t pre-judge Government decisions at Budget time.

Seymour So unless the Government starts to increase education spending by 7 to 8 percent a year, well outside the trend, then we can expect that super spending will exceed education spending within the next 1 to 2 years. Yes, OK.

Nash Thank you, Mr Secretary. Do you have concerns actually about the fundamental structure of our economy? And let me ask why—you’ve got a relatively small, enabled group of Kiwis who can borrow historically cheap
money to buy a class investment which they don’t pay tax on the profits; you’ve got a bit of a war amongst the banks for deposits, which of course you do pay tax on the interest you earn; you’ve got an OCR that really seems to have lost its teeth in terms of, you know, the banks don’t seem to be passing that on, they seem to be ignoring it a bit; you yourself mentioned you’ve got a shallow capital market that perhaps there’s a lot of Kiwis just don’t have any confidence in. I mean, are we—is there a little bit of an imbalance here that needs addressing in some way, shape, or form?

Makhlof

That is a very big question, and what I’d say is that the economy actually has been changing, and I expect it to change. And our markets have changed. not even 10 years since we’ve signed the FTA with China. we’re seeing more and more investment moving into high-end activity—if I can use that term—whether it’s manufacturing or even whether it’s in agricultural sector. I think over the medium term, like to see and expect to see that sort of diversification continuing. What we don’t know is the extent to which digitisation is going to. But you’d expect it too, actually.

The degree of services activity in the economy’s been growing. that’s where I see a lot. I think when we look at the, sort of, longer term, the best thing we can do is make sure our people have skills that, well that are adaptable, because things will change. And that we focus on seizing the that we seize the opportunities that we’ve actually got, expand the markets that are. And I think there’s opportunity out there. I think there is opportunity out there that—to increase the return that we get from our traditional industries, but also to exploit new ones. But it would be a very, very brave Treasury official who could give of when that might happen.

I’m incredibly positive about the New Zealand economy. The thing I worry about it, and I’ve said this as well before, is that we don’t seize the opportunities that we’ve got. So compared to the rest of the world, right now, today, we’re in a relatively strong—one of the strongest positions that we could’ve hoped for. In the sense that we’ve got growth, debt under control, we’ve got labour force participation at sort of record levels, we’ve got low unemployment, we’ve got, actually, a market in Asia which is not looking to be protectionist. In fact, they’re not talking about all that stuff. There are hundreds of millions of people—are actually talking about how to grow. How to build infrastructure. How to connect with partners in the region. All of that is opportunity and we could very easily seize that. Or we could also say: “Actually, we don’t want to engage. We don’t want to connect. We want to be scared of investing in those countries. We want to be scared of receiving investment in those countries.” There’s two paths there. I actually think that Keynes talked about the benefits of being optimistic. So pessimism drives you to despair and despondency and, ultimately, it is a pretty pathetic way to live. Optimism—

Nash

Mr Secretary, I completely agree with you but I’ve just been in China—and I agree with you, it is a market full of amazing opportunity. But I also am concerned, as I know Mr Robertson is, and he highlighted: have we actually
got the skills and the competencies to engage? I mean Fonterra has, Zespri has, 99 percent of New Zealand companies employ less than 50 people. So I also share your real concerns about are we developing the competencies that allow us to take hold of these opportunities. And I wonder if in fact the Government is doing enough to allow our companies—or to put them in a position that will allow them to engage, but that’s only a rant.

I just have one last question: you are optimistic and that’s great, but what do you see as the three major risks to the New Zealand economy over the next 12 months

**Makhlouf** Well, over the next 12 months?

**Nash** 12 months, so short term.

**Makhlouf** What do I see as the risks. They’re all external, parking for a minute natural shocks because that’s a risk that’s always there. They’re all external. Basically, I do worry about the growing mood of protectionism that we read about. As I just said, that debate’s not happening in Asia, but I do think it would be wrong for us to simply sit back and not address that head on. And I think everybody has got a responsibility actually to make the case for greater connectedness for the rest of the world. You can see how these things can just catch fire and keep going, and then we’d all regret it. So I think that’s one.

Secondly, I do still worry about the, sort of, relatively anaemic state of economic growth around the world. We’re going to talk more about—I’m sorry, if we were doing this next week, I could be talking about HYEFU. But I do worry that we’ve gone on for a very long time with pretty weak growth, and I don’t see at the moment some of the world’s biggest markets—some of that being addressed properly. Those are the two in particular. We’re always—actually, let’s keep it to those two.

My third risk is always that one I’ve just mentioned, and I don’t want to repeat it, which is about us just hesitating and not seizing opportunities

**Bayly** Thank you. Hey, I just want to bring it back to slightly more mundane things. You’ve got a project around strategic management capability and improving that across the sector. Could you just first of all explain what that involves?

**Makhlouf** I mean I’ll get—Struan can say a little bit. But, basically, one, we’ve recognised—partly helped by the Office of the Auditor-General and some of her work—but we’ve recognised that actually we need to uplift the capability of the public sector’s strategic financial management. What we’ve done—that is that we’ve created a post within the Treasury, it’s called the chief Government accountant. He’s the head of the finance profession. I think he’s actually probably sitting behind me somewhere. He essentially works with chief financial officers across the public sector on a range of issues.

But, specifically, one of the things that we’ve done is we’ve identified nine, I think, positions across the public sector. They are called key finance positions, and what those mean is that chief executives need the
endorsement of the State Services Commissioner before they appoint a chief financial officer, and that’s been delegated to me. So, essentially, in those nine areas, the chief executive can only appoint the CFO with my endorsement.

There’s a programme of work with chief executives directly and with chief financial officers looking to identify the precise needs. One of the things that we are trying to do, just as an example, is encourage chief executives to see CFOs as their chief performance officers and actually have them on the top table, as opposed to far lower down in the organisation, which is the case in other areas. Struan, I don’t know if you want to add anything more to it?

Little Just quickly [Inaudible]. To my mind there’s really three slices to this thing [Inaudible] falls across the system to try and [Inaudible] and third is internally which is [Inaudible].

Bayly So if you’re in the private sector, you know, there’s some pretty common operating metrics, financial metrics, that you’d apply a balance sheet for that system. To what extent is that, sort of, replicated in the Government sector and particularly the Treasury overview in terms of—we’ve probably got some State-owned enterprises that are underperforming by traditional commercial sense, if you compare them. To what extent does that management framework form part of that strategic overview and how are they held account on that basis?

Little There are some parts of the Government where that [Inaudible] it gets more and more complex as you give it to someone [Inaudible]. We’re going to have to have another range of tools [Inaudible]. How can we get some of the [Inaudible]?

Bayly So, for instance, using the ACC example, you’ve talked about traditional evaluations as [Inaudible] for future liabilities, but, you know, if you go into the insurance sector there is a whole stack of financial metrics you apply to it. Cost of service, all of those sort of—to what extent, or how sophisticated is the overview that Treasury has on? I’m not picking on SSC [Inaudible] where it is really appropriate to consider some of the operational financial capacity, or performance of those entities.

Little I would say its mixed, in terms of [Inaudible].

Seymour Just related to that and a bit closer to home, I understand that the Treasury has disestablished the position of chief economist and appointed a chief economics adviser. How do you respond to concerns that the Treasury is downgrading economists and economics in general?

Makhlouf Firstly, we didn’t disestablish the job at all, I just changed the title. And, funnily enough, we had a bit of a debate about the title. I just decided that chief economic adviser was a stronger title than chief economist, but, you know, we can debate about that.

Frankly, I reject people who accuse us [Inaudible]. I created the role on the top team to do this job. So I think what’s happened in the last few years is the exact opposite. We’ve uplifted the focus on economics.
Secondly, I think that some of the work we are doing is actually at the frontier of economic thinking. And quite a bit of the commentary from people who say we’re dumbing down economics are people who are struggling to leave old ideas behind and to adopt new ones. I’m not saying it’s easy—it’s not—but I think some of the work that we are doing, [Inaudible] living standards area, the framework that we’ve created.

I see economics as essentially about improving living standards. I mean it’s at the core of public policy. It’s a rigorous discipline and it’s a very tough discipline because it involves human behaviour. And I think one of the things that’s happened in economics around the world in the last 25 years is that too much emphasis has been put on—and let me keep this simple, this is an oxymoron, too much emphasis has been put on mathematical and algebraic certainty, which, from my perspective, is all about creating models that are quite simple, at the end of the day, to deliver outputs. And not enough emphasis has been put on actually relating the decisions that people make and focusing on those in the policy area.

I am very happy to have a whole hour with you guys just talking about that subject. But, if I can just assure you—

Seymour: If only we had the time—

Makhlouf: I just want absolutely be clear about this because it’s an incredibly important area that we need to continue to invest in and we need to help people break away from. Actually, it’s another Keynes quote, which is the toughest thing that people can do is ditch old ideas rather than pick up new ones. The world changes, and I think we are actually at the forefront of some of the thinking that’s going on around the world.

Seymour: Can I ask you about another old idea: we’ve talked about productivity. Do you have a view or a concern about the effect on productivity growth of so much of our economy being organised through the cooperative model?

Makhlouf: I want to choose the word carefully. I do wonder about it. I think it is a question—I spoke about it a year ago so when we talked about productivity, actually, as it happens. I think it is an issue that we should explore in greater depth, yup.

Shaw: Thank you for that because I did want to ask you about productivity, because the Productivity Commission’s recent report ranked us fourth-worst in the OECD for productivity performance since 1996. And I just wanted to get your—obviously, the corollary of that is incomes aren’t growing very fast and are still well below OECD average despite GDP growth. So what’s Treasury’s view of the reasons for our poor productivity performance, especially in light of the Prime Minister’s view that these things are hard to measure so we shouldn’t.

Makhlouf: I think if only it was a straightforward issue [Inaudible]. I think we share the Productivity—I mean the basic thrust of the Productivity Commission’s analysis. I should say that it’s the difficult area and one that around the world—certainly in advanced economies—people are struggling to
understand. In big economies too—I mean the UK’s productivity’s been pretty—

Hon Member It’s shocking.

Makhlouf I think some of the OECD analysis that talks about the diffusion machine that we used to have in place which sort of spreads knowledge is breaking down. I mean, in New Zealand’s case something about the size of our market almost certainly—and the distance of our markets from other markets almost certainly are actors in play here. I have a sneaky suspicion, and so I can’t prove this—but I have a sneaky suspicion that, actually, we’re not capturing enough of the data on productivity. I just question whether we’re capturing quality improvements well. And I wonder whether we are capturing services activity.

Hon Member That’s a really good point.

Makhlouf You know, my answer to you is that we share the Productivity—we broadly share its analysis.

Robertson Well, it is a to follow up on that. I take all of those things you said, but still relatively speaking in the OECD we perform poorly on productivity. So the measures are consistent across the OECD. You might be right we are not quite measuring it right, but to follow up on James’s question: what is your view on why we are 8 percent below GDP per capita, labour outputs are flat? What’s the New Zealand challenge there? Why are we below the average?

Makhlouf I don’t think there’s a single answer. I mean the Productivity Commission’s narrative tells a pretty rich story, and it’s a number of different factors. I think one of the things people have said in the past is that the primary sector is one that isn’t as productive. And I don’t agree with that, actually, as a rule. You only need to go to Fieldays, honestly, to see the amount of innovation going on that you think well, you know, [Inaudible] sector.

Services themselves: tourism, to be fair, which has seen a big growth in recent years, that tends to be pretty [Inaudible]. But I wouldn’t like to pick a single thing and say “Well that’s the reason why it is what it is in New Zealand”, because, frankly, we would’ve fixed it. People talk about the productivity paradox, and it’s quite an irritating thing really because you carry on sort of wondering about this paradox. But, genuinely, I think there are a just a whole bunch of challenges for us and we need to look at all of them to try and address them. One important thing today, because again we tend to sometimes lapse into this thinking that this is something for Government to fix, which it absolutely isn’t.

Robertson Government can help but it can’t—

Makhlouf —yeah. But, you know, the size of our firms is an issue, all right. You know we’ve got very, very many small firms.

Robertson We’ve got some of the lowest expenditure on R and D in the world—

Bennett Okay thank you very much, Secretary. Appreciate your time.
Welcome Minister. Thank you for coming to our committee. We’ve got until 1 o’clock. So if you want to give us a brief introduction and then we can ask some questions.

Thank you Mr Chairman and the committee. I’ll just make a few remarks about the economy and the Government’s finances. The Government’s books are in reasonable shape. Crown accounts show that OBEGAL for the year to 30 June of around 1.8 billion. Quite a bit has changed since that result, but the underlying story remains the same.

Surpluses are forecast for the foreseeable future and debt appears to have peaked at 25.5 percent of GDP—although, and we’ll factor in earthquake impact, but it’s likely that its heading down will be able to continue.

As recent events have shown, we need to be prepared at all times for events that test our resilience. Shocks such as this earthquake aren’t unusual. We’ve had them on a regular basis over the last 10 years, but, actually, it’s almost a permanent expectation in a small, open economy. Whether its earthquakes, or droughts, or financial crises of some sort.

With respect to the Kaikōura quake, we’re still assessing damage, and it’s likely for Government, as it for private property owners, that experience will reflect the post-Christchurch earthquake experience and that is more damage becomes apparent over time. The preliminary estimates are that it’s likely to be total damage of the order of 2 to 3 billion. None of this will be covered by insurance. More recent information that I’ve seen indicates that it will be certainly closer to 3 than 2.

On the broader economic front, the outlook is as positive as it’s been for some time. GDP grew by 3.6 percent in the year to 30 June. Unemployment has just dropped below 5 percent for the first time since the financial crisis. Our employment rate is one of the highest in the OECD. And business and consumer confidence is reasonably good.

These things are adding up to some benefits at the household level: in the last 3 years, 250,000 new jobs; the average wage is now $58,400, and since 2008 it’s increased at double the rate of inflation. People are also benefitting from the globally driven low interest rate, despite lower dairy prices which have showed welcome strength—or more strength—in the last couple of months. Other sectors of the economy, such as tourism, ICT, construction, high-tech manufacturing, are growing pretty well and creating more investment and jobs.

As the Kaikōura earthquake has shown though, we cannot rely on things staying the way they are, which means ongoing focus on those factors of resilience that are going to underpin further growth, whether it’s the ongoing investment in infrastructure to accommodate growing population and stronger economy, or more detailed regulatory challenges such as the regulation of the land market which underpins our housing market. So we’ll continue to focus on an ongoing programme of microeconomic reform.
It’s also important that we stay focused on reducing debt and working to get better value for the billions of dollars that we invest in public services and infrastructure. The fiscal outcomes are dependent to some extent on some very good work that’s been going on across Crown balance sheet, to make sure it’s better managed and that the costs of it are more predictable and investment is maintained in a way that does sustain the assets. And we’re trying to apply some of the same sort of thinking as we’ve discussed before to the very large social services and human services spend that the Government has.

So New Zealanders know that it’s quite good, I think, to have choices. So we’re working to make sure we don’t have to relearn the lessons of excessive spending and debt, but more positively weigh up the choices that are provided by Budget surpluses over the next few years.

I’ll leave it there, Mr Chairman. Happy to answer questions.

Robertson

This morning the Reserve Bank Governor’s put out his Financial Stability Report. I’m sure you’ve had a look at it. And he continues to say that vulnerability in the housing sector is increasing and spreading and still represents a significant risk for the economy. After 8 years in charge, surely that’s of some concern to you?

English

Well, the Government’s view on that has been, I think, pretty clearly articulated for some time, and that is that a fair bit of that is driven by constraint on supply, misdirected planning, and a misunderstanding of the impact of desirable urban planning objectives on household incomes. So, we spend a great deal of time on what we believe is the underpinning issue around housing cycles that are, you know, a bit sharp.

There’s been other policies designed to deal with the impacts: HomeStart to support first homebuyers, the macro-prudential framework to give the Reserve Bank some tools to deal with credit growth in the context of financial stability. But the strongest focus is on supply, and that’s where the biggest, the most positive outcome—of all these processes in the last 2 or 3 years has been the Auckland Unitary Plan, which signals that it’s possible that to get enough supply to match the demand.

Robertson

I guess, though, the thing is, that after 8 years and all of those initiatives, we’ve still got a housing sector that represents a significant risk, according to the Reserve Bank Governor, to our economy going forward. You’ve mentioned supply. He states quite clearly that supply’s been far too slow, the Government has not done enough in that area. But, equally, on the demand side, are you intending to do anything differently than what you’ve already done? Because what you’ve done to this point clearly isn’t working.

English

Well, I wouldn’t agree with that. I mean that some of these factors are positive factors for the economy and not directly influenced by Government. The lowest interest rates in 50 years means that even though people are borrowing significant amounts of money for housing, their cost of debt servicing is lower than it was 7 or 8 years ago when they were borrowing less but interest rates were double. So that points, actually, to a
bit more resilience in the household sector than is sometimes indicated by
the absolute level of debt. And strong population growth, that's still a factor
that continues to surprise the forecasters and anyone who's observing. So
those are the problems of success and growth, which is a good thing. We
don't intend to do anything about those, in the sense of treating them as
problems. We've got to adapt to it. We don't see any easy option for
somehow fixing house prices by trying to significantly suppress demand from
households, or sufficient or significant suppression of credit demand.

Robertson

So you're not interested in any kind of change around cracking down on
speculation beyond the minor tinkering that's been done with the brightline
test? You know, there are ideas out there about forms of taxation on
overseas buyers, or, indeed, a ban on overseas buyers. You're not going to
consider any of that?

English

You can always consider something that you think might work, there's not
—we haven't seen a convincing case that those sort of measures are going
to change the dynamics of the housing market. Even something like the
LVRs, which is quite a significant measure have some effect. It's generally, I
think, seen as a transitory effect. We're always open to the argument, but
haven't seen a convincing argument. Some of these measures can provide, I
suppose, a sense of short-term satisfaction. But the harder, more
challenging issues are getting supply expanded, all the processes that go with
that—which the Government's familiar with because we're the largest
developer in the country—need to be more effective, faster, more efficient.

Robertson

Just on to a slightly different topic, after 8 years, you've got per capita GDP
that's still 8 percent below the OECD average. You've got pretty flat labour
productivity generally. You haven't made any real progress in that and so,
while the big headline numbers—you can say they're looking reasonably
good—at that level, which you yourself have recognised in the past as one
of the most important measures for the well-being of people, we're still well
below the OECD average.

English

The measure moves around a bit, and it's going to be—all of the forecasts
indicate a picking up over the next few years, which is kind of what we'd
expect. I think there's two aspects to it. One is there's some reasonably—if
you look at productivity across the economy, there's some reasonably big
chunks where Government has direct control and we're spending a lot of
time on it. One of them is the regulation of the housing market because if
you're getting a misallocation of capital because of poor planning, then you
should probably fix that.

The other is the efficiency of Government. In a modern economy 70
percent are services, half of those services are Government. We've got
direct control over the productivity and efficiency of a significant chunk of
the economy and we're digging pretty hard into all that.

Those I think are quite direct. The Productivity Commission's just
produced a kind of summary of its current thinking about productivity,
which is fairly thought provoking because it gets down to the firm level, and
if there's anything that comes out of that work we put it into the Business

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Growth Agenda and continue with that. Productivity’s a generalised concept. You need to be doing about 15 things at once to push it in the right direction. We think we’re doing most of those, but are open to suggestions about what else.

Robertson: I’ve got plenty of those. But the fact is it hasn’t moved. Another issue in terms of looking at where you’ve been in spending: in health, education, and law and order, as a percentage of GDP, spending on those three things has gone down. Now, you’ll tell me that it’s not about putting amounts of money in, but this is as a percentage of GDP. Today you’ve got results coming out about the relative performance of young New Zealanders in science and maths, and we’re struggling. You’ve got Police resources stretched under law and order. You’ve got health resources stretched. Sitting beside you you have the Secretary of Treasury telling you that superannuation is going to end up as a higher total net spend than education. Why have you let spending on those important areas decline?

English: We can argue about the measure, because that all depends on your starting point like a lot of these measures. So, as percentage of GDP, all these things rose pretty sharply in the late 2000s when GDP was shrinking. So if you take that as a starting point then it has dropped.

Robertson: I’m taking 2011 as a starting point.

English: If you look at it historically, the levels are about where you would expect them to be. But what you said at the start is the most important thing, and that is we don’t measure success by how much money we shovel in. And we’re working hard to stamp out that mentality in public services—that somehow volume of cash means change to lives, because it doesn’t. In fact it’s very—

Robertson: But what about results then? In the education sector you’ve got results that are telling you that New Zealand kids are slipping further behind, and you’re prepared to spend a lower percentage of GDP on education. So that—outcomes are now proven.

English: That’s a good example because there’s a period, I think, of about 10 years—maybe less, through the early 2000s—where spending on education doubled. Spending on compulsory education doubled, with no measurable impact. And, so, the information you’re pointing to, I’m sure can be argued about—

Robertson: It’s actually a Treasury table.

English: —or compared with national standards or whatever. And my response would be that more money’s not obviously the answer because if it was we’d have the highest achieving kids.

Robertson: We did have better achieving standards during that period of time.

English: I think in education it’s becoming pretty clear that there are parts of the community where probably more resource needs to be applied, but it needs to be applied in a way—in a framework—where you can see whether it’s making any difference. I mean, some of these kids, as social investment
numbers would tell you, it’s worth spending twice as much on them as currently. And we would do that, if we could see a process that said: “Yip, we spent the money, and this is how we know it made an impact.”

Scott

Some critics, and we’ve talked about superannuation today, say that superannuation is unsustainable, apparently. Can you make some comments on why you think it is sustainable at the current levels?

English

Well, and I always think that the statement that it is unsustainable doesn’t mean a lot. However many older people there are, they’re going to have to have an income on which they can live from the Government, because most of them won’t have sufficient non-work income. So, it has to be sustainable, you don’t have the choice of saying “Oh, we just can’t do this.”—first point.

I think the second point is that the outlook has changed a bit—I think for the better—in ways that aren’t that well understood just yet. The single biggest change compared to, say, what the predictions 15 years ago about the cost of national super is that the participation rate, particularly for older people, is way higher. I think it’s gone from—for over 60s it might be from 8 percent to 24 percent. And that’s a bit surprising because the predictions all showed it dropping. The effect of that is GDP is bigger than we thought it would be. Now whether that’s sustained is yet to be seen like [Inaudible] because of low interest rates, people are working to supplement their income. When interest rates go back up, they’ll stop working. Well, that may be the case. Interestingly, when you look at the Treasury projections, the interesting point—there all interesting in every respect—

Robertson

Interesting not nonsense, can we just clarify that?

English

One of the—apart from the ones that are nonsense.

Robertson

Which ones?

English

—is the comparison between, say, the 2009 statement and the statement today, where I think it’s either in 2040 or 2050 their projection for debt now is half what it was 8 years ago. Which, you know, they’re just long-term projections and they’re just extrapolations and everything, but I think it tells you that things look a bit more sustainable now, a bit more achievable than they did before. Not because there’s fewer older people, but because the GDP is going to be a bit bigger relative to that population.

Bayly

Minister, thanks very much. I was just going to ask—in the context of that debt figure, and we’ve seen increasing debt levels overseas, and in particular in the UK braging that their debt levels going to go to 90 percent. In terms of our management of that debt, and our projection: it’s still projected to be about 95 percent in 2040. How do you see us? I know we’ve got the short-term target to reduce it. Do you see a long-term trend towards actually reducing debt entirely from a governance perspective? I mean, from the Government’s accounts?

English

Look, I think that if you just step back a bit, that whole—the process of the long-term outlook works. People look at it, policy makers, politicians look at it and think: “Oh, we should probably do something.” And the things
you can—and you start thinking pretty hard about which bits you can do in order to pull down those long-term impacts. And we’ve focused, for instance, on the long term—the populations who are dependent on the Government long term. Under 65, essentially, so the whole social investment thing is focused on— you know, kids will be in the system for 30 years and cost millions of dollars, long-term welfare beneficiaries who are there for 20 or 30 years, because actually that future cost is more amenable to change.

You can’t actually change much about the cost of the aging population. It’s going to have health costs that grow. The choices about their incomes are pretty straightforward: you pay less or you pay fewer of them. That’s it. Those are the policy choices. And a lot of the other stuff is just gimmickry, shifting the costs around. So, we focus on the bit we can, and I think with some success.

So in those long-term forecasts, the Treasury has to make assumptions about long-term spending tracks. The track we’re on is a bit lower than the historical average. It’s certainly lower than some of the higher periods. If we can stay on that track then those debt numbers will continue to come down.

Shaw

You’ve talked about the limits of gross domestic product as a measure. You have expressed some concerns about it, but—of course, at the same time, because GDP growth is doing pretty well at the moment—tend to talk it up. It’s pretty widely understood that it is a fairly simple measure and that there’s a lot going on under the surface. I know that Treasury have been doing quite a lot of work since 2011 on other indicators which might give a more sophisticated view of both the state of the economy and well-being. But they don’t really seem to be picked up by you in your role yet. And I was just wondering what’s your view on where that work is going?

English

Well, you’d be best to talk directly to Treasury about the work they do. I’d say the work is being applied at a lower level than GDP. Of interest to your party would be what I think’s going to be pretty interesting work about, essentially, the environmental balance sheet. So if you’re coming to—how do you allocate the money for cleaning up rivers? Have we got a sense of where we get the most return for that? The idea of comparative conservation value, so that may—and you’ve got environmental reporting that’s required by statute sitting alongside that. So, rather than say “Let’s replace GDP with well-being”, about which I’m a bit sceptical—you just get a wider range of indicators. And that’s picked up by something like that Legatum Institute assessment of New Zealand, which was pretty good. In fact it showed the biggest difference between GDP per capita and well-being is New Zealand. We’ve got the most relative GDP per capita a bit lower than others, but better well-being. So, look, these measures, I think you can argue about them. People can pick and choose, in terms of the economic commentary and measurement. GDP happens to be consistent over time; it’s got its weaknesses.

Shaw

I have no argument against placing it alongside GDP, but I think when you rely on it as a single measure, as the most important measure, it doesn’t—I
mean, it’s a bit like median wage increases. It’s great the median is rising, but it doesn’t actually tell the picture about what’s going on below the surface, if you look at it in terms of deciles, or anything like that. So, I guess I’ve got a concern about the way that the Government is reporting on its progress in the economy, relying on simplistic measures that don’t actually tell the whole story. I recognise there’s a million other things that are out there, but your reporting seems to be focused on a few key measures that I just, my sense is that—

English: We’re unlikely to change them much. I mean, one reason GDP is important as a measure is because of its direct connection to tax revenue, which has a direct connection to how much you can spend. So that link’s pretty important to people relying on services or income from the Government, among others. And, look, occasionally we look at changing measures, and you’ve got to have a very good reason to change. So there’s aspects of how we measure the deficit or surplus which is unsatisfactory, but to try and change it and explain it would be more effort than it’s worth probably.

Shaw: Too hard.

English: Yep.

Nash: You’ve obviously read the Financial Stability Report and you’ve painted a reasonably rosy picture. What do you see as the big three risks to the New Zealand economy over the next 12 months?

English: Well, mostly offshore, although we’ve encountered one onshore one 2 weeks ago of a fairly significant nature, bigger than the others.

Robertson: Just a little bit offshore.

English: Yeah, just a little bit offshore. The South Island’s not offshore.

Nash: Leaving aside natural disasters.

English: It’s the North Island that’s offshore. Well, you know, from our end, Christchurch through to Auckland’s just one big murk of metropolitanism.

Robertson: It’s not that far from Karori, Bill.

English: I think the risks, specific risks, one is the potential—in Europe you’ve got this series of elections and a potential pressure to unravel from Brexit: Italy, the Netherlands, whatever happens in Germany. That’s a bit of a risk because that could be disruptive alongside the uncertainty around the US results, what the US election means.

I think the other is still Chinese credit risk. It just continues to grow at unprecedented rates, and we think that can’t go on forever. Maybe they think differently.

And a third risk would be the effect of either of those things or both of them on Australia, which is still our biggest trading partner, and we’re somewhat fortunate to be next door to what’s been historically a very high-performing, developed economy.
Nash: You don’t think that interest rate increases domestically are a risk to the New Zealand economy in any way, shape or form, or commodity price drops, or exchange rate risks?

English: The interest rate one—I think’s pretty interesting. It looks like we’ve hit a floor and it might start coming up; just global circumstances as well as our own. I think a bit of normalisation of interest rates—this is my personal view—wouldn’t be a bad thing. People need to understand they can’t drop forever.

Nash: So you’d be quite happy to see interest rates increase?

English: Well, I just think that a moderate increase in interest rates would just get everyone’s thinking readjusted to the fact that debt’s not endlessly cheap. They are taking a risk when they borrow a lot of money. Savers want to see a bit more return on their savings, because for a lot of older people their income from savings has been halved in the last 5 or 6 years, so it wouldn’t be a bad thing.

But I don’t see a scenario where those interest rates would be rising sharply, because that would be a risk if interest rates rose sharply. And there is a bit of economic commentary globally developing that indicates that some of the things going on, particularly some Japanese monetary policy, maybe things going wrong in the US, might see interest rates rising sharply, but that’s not one that I think’s that likely.

Nash: So if interest rates do increase, doesn’t that put extra pressure on the household, therefore less money to spend in the economy and maybe a little bit of a downturn?

English: Not if they’re moderate, small increases that people ought to have been expecting at some stage.

Ross: A couple of weeks ago we had the Reserve Bank Governor in front of us, and in his Monetary Policy Statement he provided some projections on annual house-price inflation. In their projections in the MPS, they’re projecting that by about 2018, annual house-price inflation will be under 10 percent, and by about 2019/2020, annual house-price inflation will be about 2 and a half percent. They’re basing that on additional supply that’s coming on board, and they’re also basing that on net migration dropping by roughly two-thirds by 2019/2020. Whilst I would never expect you to predict in the same way the Governor and the Reserve Bank has, can you provide some commentary on where you see supply, house-price inflation, net migration going into the future?

English: Well, as you’ve pointed out, the Governor and the Treasury and—their expertise is in looking ahead at these things. So I’d just make a couple of points. One is that migration—it’s held up longer. We usually have quite sharp cycles in migration because of the fundamental pressure of Australian pay rates are higher than here. And that’s still the case. The gap’s closing a bit, but it’s still—you can hop on a plane and 4 hours later get paid 20 percent more for some jobs.
So it’s still our expectation that that fundamental economic gravity eventually has an impact. But that seems to be taking a while, and the Australian labour market seems to be tighter than the headline numbers would indicate. They’ve got pretty low unemployment, but actually they have quite low participation rates. So, maybe that’s why. Or maybe it’s because the economies, the states that New Zealanders go to, mainly Queensland and WA, are not in good shape. If you look out ahead one of the risks is migration doesn’t follow the pattern it historically does and we have continued strong demand.

With respect to the housing supply, look, it’s been endlessly discussed. We have the opportunity out ahead of us and I think a fair bit of a surprising degree of breadth of consensus that we need planning rules that won’t get rid of housing cycles but make them less sharp, lower amplitude cycles. I think that would be a good thing, if we apply our minds to that.

One factor that probably isn’t as evident yet, but will be, is that the Government becomes, over the next 2 or 3 years the major supplier of medium-density housing into the market, and we’re not like a normal developer. So just to give you a sense of the scale, the old unitary plan allowed us to move from 27 to 30,000 houses on existing land holdings for Housing New Zealand. The new plan allows that to go up to 69,000. So it’s basically doubled. We didn’t have to pay for the land. So where developers set prices softly and might pull back a bit, the Crown can keep going. And the market will believe that when it sees it, but it’s going to be a new factor over the next year or two on housing supply.

In Budget this year rather than give a blanket operational funding increase to schools, the money was targeted at educational—well, kids most at risk of educational underachievement. Can you just expand on the underpinning rationale for that; and is that an example of what we are going to see in future Budgets around extra investment, where the extra marginal dollar goes in the things like social welfare, education, and health?

Well, yes, to the extent that it’s feasible, and often you can’t in practice execute what looks like in theory a great idea. There’s constraints. But if you use the education example—and the Minister of Education is in a much better position to talk about it—it’s just trying to gradually move to resourcing to get the educational gain, particularly to those kids who need it most, and recognising that it actually does take more resource for those kids. And we suspect that for a small proportion of children that could be quite a lot extra. And you’ve got versions of that further up the education training system, some of the youth schemes are 15,000 a head when the average teenager you’re paying 5 or 6,000 for. So for some parts of the population where we’ve the tools, we pay two or three times as much to achieve the successful intervention.

In school that happens to be quite hard to deliver that, which is why, I’d emphasise the point I made before. Some of these kids, if they turn up to school and they haven’t really got a proper first language for a start, they’re going to be difficult to teach, they might need a lot of intensity, but it’s quite
difficult for the school to deliver that to that child. So over time, yes, we can develop—with the social investment tool kit, it’s becoming clearer where the groups are where it’s worth significant intervention at greater cost now because you can see the pay off.

Seymour You mentioned that the long-term fiscal outlooks are providing more and more optimistic forecasts of what the Government’s net debt will be 40 years out. The difficulty is that they are really not. The previous long-term fiscal outlook I think forecasts 202 percent net debt as a percentage of GDP, 4 years later we say 206. The continuing theme seems to be summed up by the wording, which in 2009 was that “The trade-offs become harder and the changes required get more severe as each year of inaction passes.” That was 8 years ago.

And today they say: “governments have many options at their disposal to address these challenges but the challenge gets harder the longer we delay.”

Do you think that no future Government will adjust pension settings in light of the fact that the problem doesn’t really seem to be changing?

English No, I think it’s open to a Government to adjust pension settings. There’s no reason why they would not—no reason to believe that over a long period of time they’re not going to change somewhat. I think the scope for change, myself, is relatively limited, because you still got a significant portion of your population who don’t have income from work and they need to have a basic income they can live on, and that’s always going to be somewhat relative to the rest of the community. But you can do means testing, you can change the age, all those options are there.

Seymour Assuming a future a Government does deal with the problem—back in the short run—what sort of impact will perhaps a $3 billion earthquake have on the Government’s ability to cut taxes in the next Budget, given surpluses of $8 to $9 billion in the 2019/20 years, and about $20 billion of surplus over the next four?

English Those are decisions that—well, we’re the Government—we’ll be making over the next wee while. I mean the earthquake—these are all trade-offs aren’t they? So the earthquake’s going to have a cost to Government, let’s say its 2 to 3 billion, and that is clearly going to make debt repayments slower. And you don’t have any choice about paying that bill—you want to do the job properly—and then you get to decide whether to trade other stuff off because of the earthquake.

So, for instance, would you delay other capital infrastructure? And probably the answer to that is unlikely if you’ve got a growing economy and a growing population and your debt levels are relatively low, then you’d probably just get on with both.

You raise the issue around the other choices Government might have—again, it’s just a balance of meeting the urgent, the current requirement that you have to meet and whether you let that get in the way of your long-term view. And we tend to think don’t let it get in the way, you end up with a bit
more debt because of the earthquake than you would otherwise. But keep trying to keep things on track.

Seymour Earlier today the committee asked the Secretary if he was concerned that the large amount of economic activity conducted through co-ops in New Zealand might be a handbrake on productivity growth, and he said he would be very cautious in answering that—he did think it would be something the Government or at least, perhaps, the Treasury should look into. Does the Government have any plans to investigate the nature of co-ops, and, for that matter, the amount of the economy caught up on SOEs, both of which traditionally are low investors in R and D, on productivity growth in New Zealand?

English We could have a long discussion about it, but it think the fundamental starting point is ownership rights. Shareholders in co-ops are the owners of those businesses and they get to decide what business form they want. And, over time, they’d argue that co-ops are the form that worked for them. They have different objectives than public servants who want to see more innovation spending.

Seymour Even if the co-op was created by statute?

English Well, that’s a bit of a special case, but the Government certainly needs to continue to pay attention to its own businesses.

Robertson Minister, I want to ask you about the state housing programme, but just to come back to an earlier question: in percentage terms what is a moderate increase in interest rates in your mind?

English Well, just moderate. What most people would regard as moderate and that’s pretty small.

Robertson One percent, 2 percent?

English Well, no, they sound like big increases in interest rates.

Robertson So they’re not moderate—a 1 percent increase is not moderate?

English I’d put that in a category of significant.

Robertson On the state housing sales programme, the Treasury has spent around about $10 million on that programme in the last 2 years, but we haven’t actually seen any real action in that. Are you satisfied you’re getting value for money out of that spend—about half of it on consultants?

English Well, we’re always testing it, and the original—I think we are still on track with the original idea, which was that you had to invest, you had to spend a bit up front to build the machinery and then subsequent transactions cost a lot less.

Tāmaki was a pretty long, expensive process because it took quite a while to figure out which bits mattered and execute them. Some learnings from that went into the transaction process, so for the first one in Tauranga—it’ll be basically finalised once the court’s dealt with it. We had to create the legal structure of the transaction because no one had done it before, no one had ever sold or transferred or thought about the risks for tenants around social
housing with that kind of clarity. So we would expect from here that, while there’s some ongoing costs around each transaction, we don’t have to invest what was about 2 years in working out how to do it.

Shaw

Minister, just to come back to some of the conversations we were having before about the measures that we’re using. I wanted to talk to you about your long-term trends in incomes and wealth distributions in New Zealand, which you don’t talk about a lot. And there’s been some recent data, coming out in the last couple of weeks, to do with people whose real incomes have gone backwards over the course of the last 10 years or so due to the rising cost of living, added to increasing wealth concentrations linked to house-price inflation, and then, added to that, changes in the economy in relation to automation and churn in jobs. And it sort of adds up to a sense that there is an increasing concentration of wealth and instability in another part of the community. And recognising that you are doing quite a lot of work on highly targeted social investment programmes, I wonder if you could just talk about that, kind of, long-term trend and whether or not you think that we have a larger problem to deal with than just the kind of highly targeted programmes than you’re investing in?

English

I don’t agree with all the analysis, but I think the single biggest factor in this kind of economic cycle is housing. Because it’s the before housing and after housing costs which have affected some parts of the population. The people borrowing, as I said, have got the lowest interest rates in 50 years. So, actually, their housing, their cost of servicing the debt’s relatively low, but they have got a large chunk of debt to get through, and it’s going to take them a while. And we see the impact on housing through our housing subsidies, because it’s [Inaudible] and we get to see that pressure pretty immediately.

So our response to that is to do two things. One is lift our ability to deal with the demand around serious housing—well, three things actually. Secondly, try and smooth the path for first homebuyers. But, most importantly, get to deal with the structural issues around the market itself. So while they’re complicated and very political, dealing with them would actually help a lot of lower and middle income families in the long run have lower cost of housing. And in New Zealand there’s plenty of room, we’re not Singapore or Hong Kong, and we should be able to, in the long run, deliver a better relationship between incomes and housing costs.

Chair

Thank you very much, Minister. I appreciate your time, and thank you everybody.

*conclusion of evidence*
2015/16 Annual review of the Accident Compensation Corporation

Report of the Transport and Industrial Relations Committee

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Appendix 7
Accident Compensation Corporation

**Recommendation**

The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of the Accident Compensation Corporation, and recommends that the House take note of its report.

The Accident Compensation Corporation (ACC) is a Crown Agent set up under the Accident Compensation Act 2001 to deliver New Zealand’s accident insurance scheme. This scheme provides injury prevention initiatives and no-fault personal injury cover for everyone in New Zealand, including overseas visitors.

**Financial performance and investment overview**

In 2015/16 ACC collected net levy revenue of $3.926 billion. This was slightly below forecast, and lower than the $4.313 billion collected in 2014/15. Its net investment revenue for the year totalled $3.2 billion, compared with $3.9 billion the previous year.

ACC recorded costs in 2015/16 totalling $9.939 billion, up significantly from $6.116 billion the previous year. The main area of change was an increase of $6.334 billion in the outstanding claims liability (OCL). This is a calculation of the money ACC needs today to cover the full future costs of all accepted claims. ACC recorded an OCL of $36.7 billion as at 30 June 2016, compared with $30.3 billion the previous year.

Within the total costs figure, ACC paid out $3.502 billion on claims in 2015/16, compared with $3.219 billion the previous year. Its main expenses were incurred in the areas of social rehabilitation, medical treatment, hospital treatment (elective surgery), public health acute services and non-fatal weekly compensation costs. Claims-handling costs amounted to $415 million ($401 million in 2014/15), and injury prevention costs were $50 million ($30 million in 2014/15).

**Net deficit for 2015/16**

Overall, ACC recorded a net deficit of $3.367 billion in 2015/16, mainly as a result of the large increase in the OCL. This compares with a budgeted surplus of $129 million for the year, and a 2014/15 surplus of $1.611 billion. The deficit resulted in ACC’s reserves (equity) decreasing to a deficit of $1.865 billion for the year ended 30 June 2016, compared with a surplus of $1.502 billion at the end of the previous financial year.

We discuss the reasons for the deficit later in our report.

**Valuation of and revenue from investments**

At 30 June 2016, ACC had investments of $34.6 billion (about 6.8 percent up on the previous year’s $32.4 billion). Net investment revenue for the year totalled $3.2 billion ($3.9 billion the previous year). ACC’s investments delivered a weighted average return of 10.35 percent, outperforming the market-based benchmark of 9.67 percent.
Office of the Auditor-General: results of the annual review

The Auditor-General assessed ACC’s management control environment as “very good”. The auditor assessed ACC’s financial information systems and controls, and its performance information and associated systems and controls as “good”, recommending improvements in these areas. We hope to see ACC act on the Auditor-General’s recommendations.

Reasons behind net deficit of $3.4 billion

We discussed the reasons behind ACC’s net deficit of $3.4 billion. These included falling interest rates, lower than expected inflation, strong investment in performance, higher claims volumes, and volatility in global financial markets—including the impact of Brexit.

ACC’s chair said that the largest contributor by far was the significant decline in interest rates. Changes in interest rates dictate how much money needs to be set aside today to cover future costs. When interest rates rise, the liability falls. When they fall, the liability increases, resulting in an increase in the OCL.

During the year under review the single effective discount rate, which is used to value the OCL, fell by more than 1.2 percent. The size of the OCL in financial terms means that a small movement in the rate has a large impact on its current value.

We heard that a deficit of this size now has less of an impact than it might have had in the past. This is because the gap between assets and liabilities is smaller, and ACC’s new funding policy works over a 10-year timeframe, smoothing out any short-term volatility that arises. ACC’s chair emphasised the deficit does not compromise ACC’s strong financial position.

Use of hedging to minimise risk from changes in interest rates

We suggested that ACC is highly exposed to interest rate changes, and asked if hedging is used to minimise the risk of interest rate or currency fluctuations.

ACC said it does try to hedge as much as possible. As part of its annual strategic asset allocation process, ACC tries to match each asset as best it can against the liability. It also considers the returns for the risks taken. However, we heard that there is no one instrument that can provide full protection over a period of 16 to 80 years, and against the exposure to both interest rates and inflation rates.

We heard that the best product to hedge ACC’s liability is the Government-issued index-linked bond, and the organisation currently holds about 40 percent of all such bonds on issue. The bonds provide protection against inflation and discount rate variances.

We asked ACC whether it uses interest rate swaps, and about their face value and duration. ACC said it took out an interest rate overlay in 2010/11, when interest rates were falling, to increase its exposure to the interest rate environment. We heard that this gives ACC an additional 9 to 11 percent exposure over and above the underlying asset. This is designed to protect ACC in the case of falling interest rates.

New claims continue to increase

The number of new claims has continued to increase, with 1.9 million being accepted during 2015/16, up from 1.8 million during 2014/15. We discussed the main factors affecting the volume of claims.
We heard that ACC has worked to understand and be able to predict the growth in claims, because it has underestimated this growth in the past. Factors affecting claims volumes include the strength of the economy: more claims are made when economic activity increases and more people enter the labour force. New workers tend to be less skilled and more likely to have an accident resulting in injury. The growth in employment has also been in higher-risk industries.

ACC said the greatest number of claims comes from people who are under 15 years of age, and the fastest-growing age group for claims is people over 65 years.

While the growth in claims has been higher than ACC estimated, it has been balanced by an increase in the number of levy payers and lower account costs. This has meant that the fund has been able to meet the increasing demand without the need to change levy rates.

The impact of immigration on increasing numbers of claims

We were interested to know what impact the higher numbers of immigrants was having on the increasing numbers of claims.

ACC told us that migration is one of the factors causing the growth in claims. However, migration also means there are more levy payers to compensate for any additional claims. In responding to our supplementary question, ACC said that the data it collects does not identify migrant status.

ACC noted that the Crown meets the cost of non-earners, and said that claims by new migrants have not caused a particular problem.

Health provider treatment injury claims

The number of claims resulting from people being injured through health treatment has been an area of particular concern for us over the last two annual reviews. We sought a better understanding of what had caused the doubling of claims since 2008/09.

We were told that the board is keeping a close eye on the issue of treatment injury because of the rapid rate of increase over the last few years. The causes of these claims include the process, post-operative infections, and clinical error.

We heard that ACC has been working with district health boards to develop injury prevention and training programmes to target areas where claim rates are high. Reducing the number of treatment injuries also reduces pressure on the health system because it means ongoing treatment is not needed. Overseas research indicates that working closely with health boards could achieve a 40 to 50 percent reduction in treatment injuries.

We also asked if district health boards have become more aware that injury treatment accidents can result in a claim. ACC considers that there is now a greater awareness among the district health boards, and it suspects that there has been under-claiming in the past.

Some of us are concerned that under funding of health services has led to the surge in treatment injuries.

Changes to levies

We heard that the Government has accepted ACC’s recommendation to reduce levies for two of the levied accounts: the Work account and the Motor Vehicle account. We asked how sustainable these reductions are, considering the large deficit just recorded by ACC.
We note that levies had been substantially increased in 2009 during the global financial crisis when the value of ACC’s assets fell dramatically.

We heard that the reductions need to be considered in the context of ACC’s overall net asset and liability position. ACC used the Government’s economic forecast to project the reduction in the levies, and there is strong evidence, including the growth in the economy, that the decisions made were appropriate and financially sustainable. Levies are set to cover the full lifetime cost of accidents that occur in the year.

We asked whether a dramatic fall in the value of ACC’s assets, such as occurred during the 2009 global financial crisis, would see ACC recommend a sharp increase in levies. We were told that ACC’s funding policy approach is to avoid sharp changes to levy rates, with the preference being to see changes being smoothed out over time. This change in focus was put in place by recent amendments to the Accident Compensation Act 2001 which requires the corporation to maintain solvency in accounts over a longer term.

**ACC’s recommended increase in the earners’ levy**

We asked why ACC had originally recommended that the Minister also increase the levy for the Earners’ account. ACC’s chair said that this recommendation was based on assumptions that underlying cost increases in the Earners’ account would, over time, mean levies would need to rise. This recommendation was not accepted by the Government, and ACC now considers this to have been the correct decision, as the fund’s long-term solvency has remained in the target range.

We heard that levy rates are affected by a range of factors, but underlying cost projections have a greater influence on any changes to the levies. The levy rates are reviewed every two years, and ACC reports to Parliament on the levy-setting process. Its report sets out what was recommended, what was decided, and what the outcome was.

We are supportive of the greater transparency the new funding policy has adopted, and we look forward to seeing ACC’s report on levy-setting.

**Injury prevention delivering a return on investment**

We discussed ACC’s return on its investment in injury prevention: for every dollar spent on injury prevention, ACC now gets $1.87 back by way of reduced claims. This is an increase on the return of $1.60 achieved in the 2015/16 financial year.

ACC has adopted an investment model for the injury prevention programmes, showing what returns have been achieved. This information is used to understand where accidents occurred, and the cost to ACC and the client.

We asked how long it takes for ACC to see a return, such as reduced claims, on its injury prevention programmes. We were told that this varies according to the length of the programme, but ACC uses a 10-year return model. The model includes the ability to review the results and make changes to ensure that the outcomes are achieved.

**More prevention programmes in high risk areas**

We asked about ACC’s injury prevention programmes. ACC has increased to 120 the number of injury prevention programmes it runs, from 53 programmes at the beginning of 2016. It uses a partnership model and works with organisations such as WorkSafe New Zealand and other health service providers. The aim is to achieve the Government’s target of a 25 percent reduction in workplace fatalities and serious injuries by 2020.
Since late 2016, ACC and WorkSafe have been working on the Reducing Harm in New Zealand Workplace Action Plan, which seeks to deliver effective interventions. We will follow the progress of this plan in our future reviews.

ACC focuses on seven areas of higher risk that represent about 85 percent of the total claims costs. The highest number of claims comes from accidents that happen in the home and community, particularly falls involving the elderly.

**Programmes to prevent falls**

This financial year ACC is partnering with district health boards and the Hospital Unit Service Coordinator to invest nearly $11 million in a multi-year fall reduction programme for people 65 years and older. We were told that this group represents 15 percent of the lifetime costs of all accident from falls.

Some of us asked why, in 2009, ACC stopped funding the Otago Exercise Programme, a home-based, individually tailored strength and balance training programme aimed at preventing falls in older adults. In responding to our supplementary question, ACC said that in 2009 it reviewed its injury prevention investment portfolio to ensure that the programmes in delivery were cost-effective and evidence-based injury prevention initiatives. At the time, that review concluded that the Otago Exercise Programme was not a cost-effective injury prevention programme for ACC.

A refreshed nationwide approach to supporting the health sector to deliver effective prevention against falls and fractures has meant a change to ACC’s funding approach. It now makes a contribution alongside health sector partners. The aim is to deliver outcomes collectively for older people.

**Public trust and confidence**

We discussed public trust and confidence in ACC. We heard that this has continued to rise since 2012/13, when less than 50 percent of people surveyed had trust and confidence in the organisation. The figure is now 63 percent, which exceeds the target set for 2015/16.

We asked what ACC is doing to ensure that public trust and confidence is maintained, particularly following the very dramatic changes to levy rates during and after 2009. We were told that ACC believes the loss of trust had a lot to do with privacy breaches. It has invested a significant amount of time and money to reduce the number of privacy breaches. As at June 2016, such breaches averaged about 20 a month, down considerably from 68 a month in 2012. ACC suggested that new technology is needed to help further reduce these numbers.

**Shaping our Future**

We heard about Shaping Our Future, ACC’s strategy to build a more customer-centred and transparent organisation over the next four years, without compromising stewardship and financial sustainability. The strategy will integrate ACC’s staff, processes, technology, and information around the needs of customers.

We heard that ACC will still keep a close eye on things that drive costs, such as rehabilitation rates and injury prevention. While trust and confidence in ACC has improved over the last few years, this was during a period of reducing levies which can have a positive effect on the public’s perception.

We will follow ACC’s Shaping Our Future strategy with interest.
Appendix

Committee procedure
We met on 9 February and 23 March 2017 to consider the annual review of the Accident Compensation Corporation. We heard evidence from the ACC and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Dr Parmjeet Parmar
Hon David Bennett
Peeni Henare (until 22 March 2017)
Raymond Huo (from 22 March 2017)
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

ACC, Responses to prehearing questions, received 31 January 2017.
ACC, Presentation, received 8 February 2017.
ACC, Responses to additional questions, received 2 March 2017.
The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of Air New Zealand Limited, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jonathan Young
Chairperson
2015/16 Annual review of the Airways Corporation of New Zealand Limited, the Civil Aviation Authority of New Zealand, and the Transport Accident Investigation Commission

Report of the Transport and Industrial Relations Committee

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Airways Corporation of New Zealand Limited, Civil Aviation Authority of New Zealand, and Transport Accident Investigation Commission

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of the Airways Corporation of New Zealand Limited, the Civil Aviation Authority of New Zealand, and the Transport Accident Investigation Commission, and recommends that the House take note of its report.

Introduction

We heard from the Airways Corporation of New Zealand (Airways), the Civil Aviation Authority (CAA), and the Transport Accident Investigation Commission (TAIC) at a joint hearing on 1 December 2016. We questioned each entity separately but there were some matters that transverse more than one of these entities. Therefore, the sections on unmanned aerial vehicles, TAIC recommendations, and mast bumping include answers from more than one of the entities.

Airways Corporation of New Zealand Limited

Airways is a State-owned enterprise and a public company. Its core business is to provide air navigation services. It manages all domestic and international air traffic operating within New Zealand’s flight information region, from Samoa in the north to McMurdo Sound in Antarctica (a total of 30 million square kilometres).

Airways’ operations are grouped into three divisions:

- System Operator Statutory is the core business of air traffic control and management.
- System Operator Other Services provides navigation, surveillance, procedural design, and infrastructure installation services to Pacific Island countries, and maintenance and consultancy services in New Zealand and internationally.
- Airways Global Services provides training services, flight information, and procedure design, and commercialises Airways’ intellectual property.

In 2015/16, Airways’ net operating profit after tax was $23.2 million, compared with $15.1 million in the previous year. The profit was higher than the $16.5 million projected because of increased domestic and international volumes. This accounted for an additional $14 million in air traffic revenue.

The non-statutory parts of the business delivered a net operating profit after tax of $3.5 million, up from $2.2 million in 2014/15. System Operator Other Services accounted for $3.1 million of this total, against a target of $2.8 million. Airways Global Services contributed $400,000, against a target of $3 million.
Civil Aviation Authority of New Zealand

The CAA is a Crown entity. It is responsible for the safety and security regulation of the civil aviation sector and the delivery of aviation security services at Auckland, Wellington, Christchurch, Dunedin, and Queenstown airports.

The regulatory function is led by the Director of Civil Aviation. It is based in Wellington, with small teams in Auckland and Christchurch, and travelling aviation safety advisers. As at 30 June 2016, it had 251 full-time-equivalent staff and two full-time contract staff.

The Aviation Security Service (Avsec) is based in Wellington, with most staff working at airports around New Zealand. Its staff screen passengers and their baggage (both checked and carry-on) and control access to airports. As at 30 June 2016, it had 845 full-time equivalent workers and one full-time contracted staff member.

The CAA recovers the costs of its regulatory activities through Government funding, industry levies, hourly charges, and specific fees. In 2015/16, the CAA’s total revenue was $126.8 million and its expenses were $125.9 million, resulting in a surplus of $900,000.

Transport Accident Investigation Commission

TAIC is a standing commission of inquiry and an independent Crown entity. Its main purpose is to determine the circumstances and causes of aviation, rail, and maritime accidents and incidents. Its aim is to avoid similar future events, rather than to attribute blame.

TAIC fulfils its statutory role through inquiries into transport accidents and incidents. The commission communicates its findings primarily through publishing reports and recommendations. The recommendations aim to influence those who can make safety improvements in the air, rail, and maritime sectors. These recommendations are usually directed at operators and regulators.

In 2015/16, TAIC’s total revenue was $5.44 million and total expenses were $5.62 million resulting in a deficit of $182,000. The majority of TAIC’s revenue ($5.23 million) comes from the Crown.

New Airways strategy

Airways is at the mid-point of its 10-year business transformation strategy, Making a New Airways (MANA). The strategy aims to double revenue, triple the value of the corporation, and create more than 200 high-quality jobs by 2020.

New strategic approach for Airways Global Services

The Airways Global Services business unit has struggled to achieve the MANA programme growth targets, primarily because of delays in securing sales contracts. Although the original MANA targets have been scaled back, Airways recognises that a different approach is needed for its internationally focused businesses. A new strategic direction, approved by the Airways Board in May 2016, established more autonomous commercial business units that operate more independently of the Airways corporate structure.

We asked whether the targets are not being met because the business unit’s products are not resonating with its customers. We were pleased to hear that Airways believes that its products are “genuinely world leading.” However, it said that the customer base is challenging because it is mostly other air traffic control organisations. Many of these run
Airways told us that running a business within a State-owned enterprise requires a different culture and set of skills than that of a commercial subsidiary. Airways began the restructuring process in July 2016 to address this challenge. The commercial entities have been divided into two distinct businesses, with one focusing on training and the other on a range of aviation services, such as designing flight paths. General managers, who will report to a commercial steering committee, have been appointed for each business unit. To encourage sales, remuneration for staff has been changed from a full base salary to about 40 percent performance-based remuneration.

Airways expects the business units eventually to be self-sustainable and generate an equivalent economic return to the parent company. It expects this to take at least a couple of years. We look forward to seeing the progress of the internationally focused businesses.

**Airways capital investment programme**

The statutory business has been able to achieve its MANA targets and invest in modernising New Zealand’s aviation and structure because of the additional revenue from increased flight volumes. In 2015/16, Airways completed a $35 million capital investment programme which included building a new air traffic control tower in Wellington, lighting to enable evening flights in Queenstown, more efficient flight paths, and preparing for New Zealand’s transition to satellite-based navigation. Airways told us that it expects to spend about $35–40 million for at least the next three years. We look forward to seeing the results of this investment programme.

**Registration of unmanned aerial vehicles**

In recent years, Airways and the CAA have worked to manage some of the risks associated with unmanned aerial vehicles (UAVs). In 2014, Airways, the CAA, Callaghan Institute, and the industry group UAVNZ collaborated on an online educational website, airshare.co.nz, which provides training and information on safely operating UAVs. The site continues to grow and has over 2,500 registered users.

New rules for UAVs came into force in August 2015. CAA Rule Part 101 was amended to require drone users to have the consent of land owners before flying a drone over their land. New CAA Rule Part 102 requires higher-risk operators to have certification. Despite these steps, the chief executive of Airways stated that he would like to see a compulsory register for UAVs. This differs from the CAA’s view that it does not consider compulsory registration as necessary for safety.

**Airways’ view on compulsory registration**

Airways believes that UAVs should be registered, like motor vehicles and firearms, because they have the potential to cause serious harm. Although registration is required for higher-risk operators under CAA Rule Part 102, this only applies to a small number of operators, mainly commercial. Airways told us that other operators, particularly recreational users, have been the cause of most incidents involving UAVs. It considers that compulsory registration would put a sense of responsibility on even the most casual UAV user to operate safely. Compulsory registration would also allow an owner to be traced if a UAV is causing a problem.
CAA’s view on registration

The CAA told us that it would like to see more work done before considering compulsory registration and that it is not aware of a safety case that justifies compulsory registration. It said that practical aspects of compulsory registration, such as enforcement, were considered when drafting CAA Rule Part 102 in 2015.

The CAA notes that the rule was only an interim step to manage the immediate safety risks caused by the increase in UAVs, allowing time for international standards to be introduced. The CAA will begin the post-implementation review of the rule in early 2017. It believes that compulsory registration will be covered in this review. The CAA said that this will provide an opportunity for Airways, and others, to make a case for compulsory registration. We will follow the outcome of this review with interest.

New CAA Safety Management System

A Safety Management System (SMS) is a formal risk management framework to improve organisational safety. In February 2016, a new civil aviation rule for SMS, Part 100, was introduced. Under this rule, operators must demonstrate to the CAA that they have the correct safety processes in place and that they “have the right people doing the right things at the right time.” This will include anticipating risks and potential problems. The CAA considers this a fundamental change.

The CAA told us that the focus is now on outcomes rather than on following prescriptive rules. It said that the impetus for the change came from the International Civil Aviation Organization rather than the new health and safety legislation. It said that, internationally, aviation safety has lagged behind some of the occupational health and safety legislation. However, it believes that there is now good alignment between the two in New Zealand.

CAA high annual leave balances

The Office of the Auditor-General noted that, as at 30 June 2016, 23 percent of the CAA’s regulatory staff and 35 percent of Avsec staff had annual leave balances in excess of 20 days. In 2015/16, this accounted for a leave liability of $1.604 million for the regulatory side and $5.652 million for Avsec. The high annual leave balances expose the CAA to the risk of increased wage and salary costs, negative effects on employees’ health and productivity, and disruption to the business if staff need to take long leave periods to reduce their leave balances. We encourage the CAA to address these high leave balances.

Recruitment of Avsec staff

We note that the CAA has had difficulties in recruiting Avsec staff in Auckland and Queenstown. We asked whether this is because they are the lowest paid staff in the organisation. The CAA said that Avsec staff have a “good wage rate” but that part-time staff are needed, particularly in the mornings and evenings, to address the peak times for airport queues. It told us that it is difficult to recruit part-timers in Auckland and Queenstown at present because it is a “really tight market”.

Avsec’s process for checking airport queues

We asked about Avsec’s process for checking queues and waiting times at airports. The CAA told us that Avsec uses a system for rostering called Quintiq which tells it the expected passenger volumes, within an hour window, three days before a flight. However, it does not know the particular time that a person will go through a queue because this is
an individual’s choice. The CAA said that it often has issues at Wellington Airport when airlines shift planes between gates. It quickly has to adjust its staffing on those gates.

We asked whether there are standards for queue lengths and times, and any accountability about staying within the standards. The CAA told us that New Zealand’s average queueing time of three minutes for a domestic flight is world-leading. It said that it is very rare for queues to exceed 10 minutes but occasionally they might get up to 20 minutes. Avsec staff monitor queue times closely and report them to the management team and board.

**TAIC funding increase**

In 2015/16, TAIC received additional government funding of $1.274 million, as part of Budget 2015’s additional operating funding over four years. This was in response to a 2014 review that identified growing concerns with TAIC’s ability to complete its cases. TAIC has used the funding to hire six new investigators. We were pleased to hear that it has started to see the benefits of this funding. For example, it was able to send four people to investigate the sinking of the charter boat Francie in Kaipara Harbour.

TAIC receives about 1,000 notifications of adverse events (accidents and incidents) annually. It generally opens investigations into 1 to 2 percent of these. TAIC considers that it is adequately funded for its current work. It told us that big accidents are very expensive to investigate, but these are quite rare. TAIC has relationships and memorandums with sister organisations. If there is a big event, it has the support and assistance of other Commonwealth countries and the United States.

**Outstanding TAIC recommendations**

We were concerned to hear that more than half (174) of the 312 recommendations issued by TAIC in the past 10 years are still open—that is, they appear not to have been addressed. The aviation sector as a whole has 83 out of 111 recommendations still open. We sought more information from each of the entities about the outstanding recommendations.

**Recommendations for Airways**

We asked if there are any recommendations from air accident investigations that have yet to be implemented. Airways told us that it is awaiting recommendations from TAIC from two investigations currently under way. They relate to a network outage in June 2015 and an incident in Hamilton between two training light aircrafts.

**Recommendations for the CAA**

In early 2016 the CAA looked at the recommendations directed at it over the past 10 years. It has informed TAIC of the actions taken for each, and is seeking advice on whether the issue is considered open or closed. Only TAIC can decide whether a recommendation can be closed. The CAA noted that, particularly in the past, TAIC would make recommendations to it that were not within the CAA’s power to implement. In some cases, it may have implemented recommendations but not communicated this to TAIC.

**TAIC’s processes for closing recommendations**

Some of us are concerned that TAIC may not know the status of many of the recommendations it has made. We asked about its processes for checking. TAIC told us that it has a database and runs a “bring-up system”. Each TAIC sector (rail, aviation, and maritime) is responsible for monitoring their recommendations and holds monthly
meetings with the relevant regulators. TAIC considers that these meetings are sufficient to keep informed on the status of outstanding recommendations.

TAIC agreed that, in some cases, it may be unaware of action that has been taken. There can also be a delay in closing off recommendations because they must be submitted to the commissioners with evidence on why they should be closed. TAIC acknowledged that some of its systems have not been the best in the past and so it has been reviewing its quality assurance and safety management systems, and now has a streamlined process for checking on outstanding recommendations. We hope that the new process will result in a better understanding of the status of recommendations.

**Rejected recommendations**

TAIC’s recommendations are not binding, so improved safety can only be achieved by influencing others to implement them. TAIC told us that, of its recommendations open at 10 January 2017, the regulators who the recommendations were directed at rejected 11 out of 96 for aviation, 1 out of 34 for rail, and 6 out of 88 for maritime. TAIC has discussions with the regulators about long-outstanding recommendations. It accepts that some recommendations may no longer be relevant because of changing circumstances and operating environments. In such cases, TAIC notes that the recommendation has been superseded and is no longer relevant.

**Review of TAIC’s investigation of the 2010 accident at Fox Glacier aerodrome**

In April 2014, TAIC commissioned an independent review of the evidence in support of its findings on the cause and circumstances of the 2010 accident at Fox Glacier aerodrome, in which nine people were killed when an aeroplane lost control during take-off. The review was in response to criticism from witnesses about some of TAIC’s processes during its investigation, and questions around the validity and accuracy of some of the findings in TAIC’s May 2012 report.

TAIC told us that the review found that it needed additional investigators at the site. It said that it was stretched because it was the day after the Christchurch earthquake and the only investigator available at the time lived in Christchurch and was affected by the earthquake.

The review also found that because the resourcing of the investigation was inadequate, this had flow-on effects for the management and analysis of evidence from the wreckage. We asked whether, with the benefit of hindsight, TAIC accepted that the investigator buried the wreckage too soon. TAIC acknowledged that a different decision would possibly have been made if there had been more people on the ground to help the investigator, with “more eyes over the evidence.”

**Mast-bumping in Robinson helicopters**

In 2015/16, TAIC continued to express concern about the number of incidents involving mast-bumping in Robinson helicopters. This occurs when the inner part of a main rotor blade or a rotor hub makes contact with the main rotor drive shaft, known as the mast. Mast-bumping usually results in the helicopter breaking up in flight, which can be fatal for those on board. TAIC and the CAA have investigated nine accidents or incidents involving mast-bumping since 1991, including six in the past four years. Nine people have died in these accidents.
CAA’s response

We asked how the CAA has addressed these concerns. The CAA told us that TAIC had made recommendations two years ago for improvements to the safety awareness training for Robinson helicopters. The CAA had actioned this recommendation promptly. A draft rule amendment is also under way.

The CAA believes that the issue is largely one of pilot training. It has taken this up with the United States, the Federal Aviation Administration, and the Robinson helicopter company. As with any aircraft, problems will arise if a helicopter is used outside its design criteria. The CAA has not considered a ban on these craft, because it is confident that if pilots adhere to the limitations in the design manual, then the aircraft should be “entirely appropriate.” We will continue to monitor this issue with interest.
Appendix

Committee procedure
We met on 1 December 2016 and 16 March 2017 to consider the annual review of the Airways Corporation of New Zealand Limited, the Civil Aviation Authority of New Zealand, and the Transport Accident Investigation Commission. We heard evidence from the three organisations and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Andrew Bayly, until 8 February 2017
Hon David Bennett, from 8 February 2017
Peeni Henare
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Airways Corporation of New Zealand Limited, Responses to written questions, received 29 November 2016.


Civil Aviation Authority, Responses to written questions, received 1 December 2016.

Civil Aviation Authority, Post-hearing responses, received 30 January 2017.

Civil Aviation Authority, Appendix to post-hearing responses, received 30 January 2017.

Office of the Auditor-General, Briefing on the Airways Corporation of New Zealand Limited, dated 1 December 2016.

Office of the Auditor-General, Briefing on the Civil Aviation Authority of New Zealand, dated 1 December 2016.

Office of the Auditor-General, Briefing on the Transport Accident Investigation Commission, dated 1 December 2016.

Transport Accident Investigation Commission, Responses to written questions, received 29 November 2016.
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Commerce Commission

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Commerce Commission, and recommends that the House take note of its report.

Introduction
The Commerce Commission is an independent Crown entity. It is New Zealand’s market competition authority and regulatory agency.

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

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

Financial and performance information
In 2015/16, the commission received total operating revenue of $39.474 million, nearly 7 percent more than in 2014/15. The bulk of its revenue came from the Crown. The commission’s expenditure was $39.340 million, resulting in a net surplus of $134,000.

We are pleased to note from the Office of the Auditor-General that the commission continues to improve the quality of the information it provides about its performance. An independent review in 2015 also highlighted that the commission is a well performing organisation. However, there remains scope for improvement in some areas. We hope to see the commission act on the recommendations from the Auditor-General and the independent review to further refine its performance measures. This would help to inform the public about its impact on market competitiveness.

Increased tools for the commission
The commission has a new range of enforcement tools following amendments in 2013 and 2014 to the Fair Trading Act 1986 (the FT Act) and the Credit Contracts and Consumer Finance Act 2003 (the CCF Act). The changes include new provisions concerning responsible lending principles and unfair contract terms, and an increase in available penalties for some breaches of the CCF Act. This has led to an increase in the number of the commission’s investigations that resulted in litigation, from an average of 7 a year to 30 in 2015/16.

Self-initiated investigations
Last year we stressed the importance of the commission being proactive in investigating potential illegal activity. We are encouraged to hear of its work to challenge specific
behaviours in sectors that it has considered a priority. These areas include mobile traders, product safety work, and unfair contract terms.

We are pleased to learn that the commission will continue to examine the potential illegal activity of mobile traders. Its work so far has resulted in significant prosecutions.

We are also interested in the commission’s work on the high fees charged by short-term lenders. We consider that changes to credit laws have proved effective, and are benefiting communities. In 2015/16, the commission completed 56 investigations and initiated 13 court cases concerning alleged unlawful credit practices. This has resulted in agreements for $3 million to be refunded to consumers.

The commission brought to our attention that, alongside its enforcement programme, it has also run credit workshops to help raise awareness and understanding of consumer and credit law. We encourage it to continue such work.

**Repeated breaches of consumer laws**

We are concerned that some entities have repeatedly breached consumer laws despite the commission’s enforcement action. We asked whether the commission considers its penalties a strong enough deterrent. The commission informed us that there has not been enough time to test whether the increase in penalties from the 2013 and 2014 legislative amendments are enough of a deterrent. It is monitoring the effectiveness of its new powers and noted that it is for the Courts to set the penalties.

The commission told us it is concerned about the volume of complaints it has received concerning the telecommunication sector. It finds the repeated breaches disappointing as it has engaged closely with telecommunications companies to help improve their processes to aid in compliance. It has established a project team to look into routine breaches by the telecommunications firms and to evaluate its general enforcement approach in this area.

We asked whether there was a problem with the commission’s complaint mechanism. The commission assured us that it has an adequate complaint mechanism for the public. In its view, there was no issue with receipt of, or inquiring into, complaints. Complaints in 2015 increased by 8.7 percent, with 5 out of 21 of the most complained about traders being telecommunication service providers.

**Mergers, monopolies, and anti-competitive behaviour**

Three of the largest merger applications that the commission has had for some time occurred in 2015/16.

We are concerned about an apparent trend toward monopolies through the merger of companies. We asked whether the legislative framework is sufficient in this regard. The commission indicated that a lot of the merger activity is being driven by a dynamic market, with technology changes occurring in many sectors. It said it is too early to tell if current legislation will cope with the challenges. It may become apparent in two or three years whether a regulatory response is needed for some industries.

We sought more information about behavioural undertakings by merger entities, where they promise to undertake or avoid certain conduct. The commission assured us that its jurisdiction for a merged entity to divest part of the merged business (a structural undertaking) is sufficient. Although behavioural undertakings are used in other jurisdictions, the commission indicated that they can be challenging and complex, and are often a source of ongoing problems.
The commission confirmed that it strongly supports the reforms concerning taking advantage of market power (section 36 of the Commerce Act 1986). The commission noted that responsibility for the reforms is currently with the Ministry of Business, Innovation, and Employment. We heard there was no further progress on these reforms. We asked whether it would be appropriate to have a criminal regime for anti-competitive behaviour. The commission assured us that it considers the civil regime for anti-competitive behaviour to be effective. It has active enforcement in the civil regime, with 17 cases in 2015/16, mainly regarding livestock and real estate. The commission also considers that the penalties in the civil regime are significant.
Appendix

Committee procedure

We met on 9 February and 9 March 2017 to consider the annual review of the Commerce Commission. We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on Commerce Commission, received 9 February 2017.

Commerce Commission, Responses to written questions 1-102, received 7 February 2017.

Commerce Commission, Responses to additional written questions 103-110, received 3 February 2017.
2015/16 Annual review of the Commission for Financial Capability

Report of the Commerce Committee

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Commission for Financial Capability

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Commission for Financial Capability, and recommends that the House take note of its report.

Introduction
The Retirement Commissioner, known as the Commission for Financial Capability, is an autonomous Crown entity. The Commission’s work focuses on raising the level of financial capability of New Zealanders, improving the effectiveness of retirement income policies, and monitoring provisions of the Retirement Villages Act 2003.

The Commission’s total revenue in 2015/16 was $6.126 million and its total expenditure was $6.3 million, resulting in a deficit of $174,341. It was able to fund its deficit through the use of accumulated surpluses.

The Commissioner is Diane Maxwell.

The Auditor-General assessed the Commission’s management control environment and its financial information systems and controls as “very good”. Both areas improved from “good” ratings in 2014/15. The Commission’s performance information and associated systems and controls were rated “good”, the same as in 2014/15.

Adequacy of Government funding
Given that the level of funding provided by the Government has not changed since 2009, we asked if the Commission’s current funding is adequate for it to effectively carry out its functions.

The Commission said it is pleased with the work it is able to accomplish with the funding it receives. It said much of the work it does could be scaled upward, so it would be able to make efficient use of any further funding.

The Commissioner informed us that a request for additional funding was made for the latest budget round.

Avoiding insecure retirements
We asked how the Commission helps to prepare younger people for retirement. The Commission said it is focussing on the psychology of young people’s saving habits. For many young people, saving for retirement can be too daunting so they do not bother. The Commission said it is aiming to reframe young people’s thinking to understand the value of slowly accumulating wealth.

Effect of reduced home ownership
We discussed how home ownership can provide relative financial security to retirees. Given that some New Zealanders are finding it difficult to purchase their own home, we asked how the Commission helps to prepare these people for retirement.
We heard that people renting in retirement is increasingly common in New Zealand. The Commission said that one problem for retired renters relates to the relatively low quality of houses available to them. Their level of savings can also be a problem as, in many cases, superannuation does not cover the cost of rent.

The Commission said that early education is needed to prepare people for such a retirement. It is working with those between the ages of 20 and 50 to encourage them to reduce debt, change behaviours, and increase savings.

**Cross-sector collaboration**

We asked the commissioner if she had any ideas around how a fragmented sector offering advice could collaborate to deliver better outcomes across our diverse communities. The commissioner stated that her team members do consult and provide advice to other organisations when restructuring or looking at ways to better deliver value.

**Measures of success**

We asked how the Commission measures its success. It said it uses different measures in different areas. People are assessed before and after participating in one of the Commission’s programmes. The success of the programme is determined by measuring participants’ savings improvement, debt reduction, goal-setting, financial planning, and how much they talk about finances at home.

The Commission said that it would like to know how much influence it has had on New Zealanders’ financial capabilities on a national scale. However, it was told that this information is extremely difficult to quantify.

**Financial advice to the Muslim community**

We are aware that some New Zealand Muslims are prohibited from receiving interest on savings. We asked whether the Commission has provided advice to the Muslim community regarding retirement savings in this context.

The Commission said its current priority is to reach out to Māori and Pacific Island communities. It has not engaged with the Muslim community on this topic, but it is aware of the issue, and acknowledges that more work should be done. The Commission suggested that this is an area in which KiwiSaver providers could work to accommodate those affected.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the Commission for Financial Capability. We heard evidence from the Commission and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Commission for Financial Capability, Responses to written questions 1–102.

Commission for Financial Capability, Responses to additional written questions 103–108.
2015/16 Annual review of Crown Fibre Holdings

Report of the Commerce Committee

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Appendix 5
Crown Fibre Holdings

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Crown Fibre Holdings, and recommends that the House take note of its report.

Introduction

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

In 2016, CFH has been managing a tender process for the expansion of ultra-fast broadband. The project, known as UFB2, aims to extend the roll-out to an extra five percent of the population. CFH also began managing the second stage of the expansion of the Rural Broadband Initiative 2 (RBI 2) and the Mobile Black Spot Fund. RBI 2 and the Mobile Black Spot Fund together involved an additional Crown investment of $150 million, funded from the Telecommunications Development Levy.

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

Audit opinion

The Office of the Auditor-General gave ratings of “very good” to CFH’s management control environment, and its financial and performance information and controls. We are pleased to note that recommended improvements from the previous year’s audit have been addressed.

Ultra-fast broadband deployment

To deploy UFB, CFH has partnered with three local fibre companies and Chorus, which is the largest co-investor.\(^1\)

CFH told us that the UFB initiative is now 69 percent complete, and that 52 percent of New Zealanders now have access to the service. Uptake was at 28.3 percent as of September 2016, which CFH told us is far greater than expected, considering international uptake levels have historically been slower.

Demand for data has also been increasing. UFB customers use 193 gigabits a month on average and copper customers use 102. CFH expects data demand to keep increasing, and notes that it is relatively inexpensive for consumers to increase their data speed. The cost of increasing from 100 megabits per second to one gigabit per second is about $10 a month for those customers with access to the service.

We heard that customers in some countries can access speeds of 50 gigabits per second, and asked whether that would be possible in New Zealand. CFH said that, on the current

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\(^1\) Chorus Limited was formerly the network arm of Telecom Corporation of New Zealand Limited.
network, 10 gigabits could “easily be delivered”. However, equipment costs will need to come down before 50 gigabits per second can be delivered.

**Gigabit roll-out in Dunedin**

We and CFH acknowledged that some Dunedin lines companies have older power poles that cannot support a one gigabit-per-second service. CFH explained that Chorus is rolling out fibre along the side of streets where power poles without conductors are, because these poles tend to be in a better condition. It connects to upgraded poles as they become available.

**Issues affecting Auckland, Wellington, and Christchurch**

We noted that progress on deployment is at 53 percent in Auckland, 50 percent in Wellington, and 61 percent in Christchurch. We asked why these three cities are behind the national roll-out average of 69 percent. CFH explained that Auckland’s slower roll-out is due to its geographic spread and the problems caused by the region’s volcanic cones. However, it pointed out that Auckland is still ahead of schedule. It said Wellington’s hills have made it difficult to build there. Christchurch’s progress has been affected by the earthquakes, but the pace is now starting to accelerate.

**Complaints resolution**

CFH acknowledged that complaints have increased about unsatisfactory connection work. It said that, ultimately, Chorus is responsible for making connections and dealing with complaints. CFH’s role is to highlight these problems to Chorus when it is made aware of them. It noted that Chorus has a quality assurance process, and customers can contact Telecommunications Disputes Resolutions if necessary.

**Ultra-fast broadband expansion deployment**

Given that the policy announcement for UFB2 was made in 2014, we asked when UFB2 deployment will begin and where it will be rolled out. CFH said that details are still commercially sensitive, but the negotiation process is nearing completion. It mentioned that UFB2 is designed to carry on from UFB1, and UFB1 is currently using resources that will eventually be used by UFB2.

**Rural Broadband Initiative 2**

We asked whether there are issues with the data being used to define coverage areas for RBI 2. CFH told us it had ascertained two categories of rural users: those who are underserved—meaning they can only access speeds of less than five megabits per second—and those receiving 5–20 megabits per second who would like their services improved.

CFH has determined areas that are not served by either Chorus or the two major mobile carriers. These areas tend to be able to access speeds of less than five megabits. It is currently pinpointing which of those areas could be served by regional operators so it can focus on them. CFH is asking the industry to ascertain customers who can only receive speeds of 5–20 megabits per second so it can upgrade their services.

**Telecommunications (Property Access and Other Matters) Amendment Bill**

The Telecommunications (Property Access and Other Matters) Amendment Bill would, if passed, help to undo roadblocks for connectivity on properties shared between multiple
owners. Examples include apartments and dwellings with shared driveways. We asked CFH about the number of properties in this situation and the extent of the blockages. CFH informed us the New Zealand Telecommunications Forum collects this information from the industry and then CFH reviews it.

The bill also proposes granting statutory rights of access to existing electricity networks for the purpose of deploying fibre. We asked whether the bill’s progression through the House is delaying UFB 2 and RBI 2. CFH said it was not. It did not think the legislation, if passed, would affect UFB 2, but said that with RBI 2 it could help to generate more participation by electricity providers.
Appendix

Committee procedure

We met on 17 November 2016 and 2 March 2017 to consider the annual review of Crown Fibre Holdings. We heard evidence from Crown Fibre Holdings and received advice from the Office of the Auditor-General.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Crown Fibre Holdings, Responses to written questions 1–102, dated 17 November 2016.
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Earthquake Commission

**Recommendation**

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Earthquake Commission, and recommends that the House take note of its report.

**Introduction**

The Earthquake Commission (EQC) is a Crown entity with three core objectives: to provide natural disaster insurance for residential property, to administer the Natural Disaster Fund, and to fund research and education on natural disasters. EQC has largely been focussed on responding to the Canterbury earthquakes since 2011. However, its focus is increasingly on its role and responsibilities post-Canterbury, including responding to damage as a result of the 2016 Kaikōura earthquakes.

EQC’s chair is Sir Maarten Wevers. The acting chief executive at the time of the annual review was Bryan Dunne, following the departure of Ian Simpson in December 2016.

**Financial performance**

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

EQC reduced its outstanding claims liability by $500 million in 2015/16, to $2.3 billion as at 30 June 2016. The reduction was mainly due to the continued settlement of claims throughout the year.

Before the Canterbury earthquakes the balance of the NDF was over $6 billion. By 30 June 2016 EQC had paid out $9.4 billion in response to the earthquakes, using funds from both the NDF and reinsurance. EQC received more than 26,000 claims following the November 2016 Kaikōura earthquakes. As a result, EQC expects its investments and cash to be materially depleted during 2016/17. The Government has confirmed it will meet its obligation under the Earthquake Commission Act to ensure that EQC can meet all its liabilities as they fall due.

Auditors for the Office of the Auditor-General (OAG) assessed EQC’s management control environment as “needs improvement”. The auditors acknowledged that deficiencies identified in 2014/15 have been resolved in part, but information management controls were still not satisfactory.

The OAG also assessed EQC’s performance information and associated systems and controls, as “needs improvement”. Deficiencies identified in 2014/15 have, again, been partly resolved, but further work is needed to improve the integrity of performance information.

EQC’s financial information systems and controls were assessed as “good”. We hope to see progress made in addressing the auditors’ recommendations by the time of our next annual review.
Discussions regarding the Government guarantee

Given its weakened financial position and the recent Kaikōura earthquakes, we asked what the process would be if and when EQC needed to call on the Government to meet any claims EQC could not meet itself.

We heard that EQC has sought a letter each year from the Minister of Finance providing a guarantee of Government support, so that it can be considered a going concern. Under section 16 of the Earthquake Commission Act 1993, the Government is obliged to assist in the event that EQC cannot meet all its liabilities. However, it has never been called on to do so. EQC said it had hoped to settle all claims from the Canterbury earthquakes through the NDF and reinsurance, without taxpayer assistance. However, with thousands more claims stemming from the Kaikōura earthquakes, it has begun discussing funding options with the Treasury.

EQC said that two points need to be clarified in the talks with the Treasury. They are the mechanism by which the Government would offer financial assistance (either a grant or a loan), and when such assistance would be given. Given the uncertainty about when future payments would be needed, there was no confirmed date for the conclusion of these talks.

Adequacy of the Natural Disaster Fund

We asked how long it had taken to build up the NDF to its pre-earthquakes level, and whether the scale and frequency of recent earthquakes has affected EQC’s assessment of how large the fund should be for the future.

The NDF was set up by the Earthquake Commission Act 1993 (EQC Act), and reached $6.4 billion in 2011, just before the earthquakes in Canterbury. We heard that EQC’s board has been investigating what the optimal size of the fund should be. In consultation with GNS scientists, it has considered the maximum probable loss based on past earthquakes in New Zealand. The funding amounts suggested have ranged from about $4 billion to $12 billion. This work has informed EQC’s ongoing discussions with the Treasury.

Security and privacy breaches

EQC reported three data security breaches in 2015/16. The breaches were a result of ransomware, a malware encryption which locks users out of a computer, unless they pay a “ransom”. We asked about the consequences of these attacks, and whether any personal details were released as a result.

We heard that no data was released outside the commission as a result of these attacks because the virus encrypted files to lock them, rather than to extract data from them. In response, EQC restricted access to some online media, such as Flash web plugins.

EQC also reported 559 potential privacy incidents in 2015/16, up from 402 the year before. They included 114 confirmed privacy breaches and 445 “near misses”. Some of us found it curious that privacy incidents had increased while the number of claims has reduced, and asked what information was revealed in these incidents and to whom.

EQC confirmed that, of the 114 privacy breaches, 104 were rated low risk and 10 were rated either medium or high risk. Most low risk breaches were instances of information being disclosed in error, often as a result of incorrect data entry or because out of date contact information was used. Of the 10 breaches rated medium or high risk, five related to EQC employee information and five related to customers. In each case EQC assessed how sensitive the information was, who it was released to, and how it could be retrieved. EQC
said it had informed those affected, where appropriate, and took steps to prevent the same issue happening again.

**Remedial requests**

We asked how EQC manages remedial repair work which requires people to move out of their home. Some of us have heard of cases in which people did so at their own expense. We heard that if a repair required occupants to move out, either for health and safety reasons or because the repair was too intrusive, then EQC considers covering the cost of alternative accommodation. However, doing so is at EQC’s sole discretion and is considered on a case-by-case basis.

**New approach to managing claims**

In December 2016, following the Kaikōura earthquakes, EQC signed an agreement which transferred responsibility to private insurers for assessing and settling claims relating to homes and contents. The aim is to simplify the resolution of claims for customers. We asked what risks EQC has identified in transferring these responsibilities, and how it plans to mitigate them.

We heard that the decision was made following feedback on EQC’s initial response to the Canterbury earthquakes. A detailed memorandum of understanding (MOU) has been set up between EQC and private insurers. Staff at those insurers have undergone training on the operation and interpretation of the EQC Act, the Official Information Act 1982, and the Privacy Act 1993. Under the MOU, if EQC has reason to believe that there are severe or constant misapplications of the EQC Act, it can step in and take those claims from the insurer. The MOU also contains an audit program which assesses the application of the EQC Act and insurers’ pricing.

EQC acknowledged that there was some risk in the new approach, but said it is an opportunity to try a different approach.

**Effect of Kaikōura earthquakes on future operating model**

Having completed the majority of its work settling claims related to the Canterbury earthquakes, EQC has begun to design a new operating model to handle future disasters. This will involve considerable downsizing, with staff numbers reducing to 458 in January 2017, from 868 in August 2016. We asked whether the large volume of claims relating to the Kaikōura earthquakes had affected EQC’s plans.

We heard that EQC management decided against changing its plans for the restructure in light of the Kaikōura event. Management concluded that the model EQC is moving to has the essential capabilities and flexibility to deal with any new events that may arise, including the Kaikōura earthquake. EQC said that while it has been reducing staff numbers, private insurers, which are now responsible for assessing and settling claims, had been employing many of the same staff. This has resulted in skilled and experienced workers remaining in the industry.

**Defining when a project is completed**

We are concerned about difficulties EQC has had in Canterbury with defining when a project can be considered completed. We discussed how EQC determines when a project is “complete”.
EQC said it defines the status “complete” as “all exposures and claims related to the dwelling have been closed”. We heard that it can be very difficult to settle on such a definition due to the ongoing nature of EQC’s involvement in the response to the Canterbury earthquakes. EQC has an obligation to stand by the quality of its repairs for 10 years. Given this, a claim could possibly be considered “complete” for a number of years until a fault is discovered and remedial work is undertaken, when the claim would no longer be considered “complete”.
Appendix A

Committee procedure
We met on 8 February and 8 March 2017 to consider the annual review of the Earthquake Commission. We heard evidence from the Earthquake Commission and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw
Michael Wood

Eugenie Sage replaced James Shaw for this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Earthquake Commission, Responses to committee questions 1–102, dated 7 December 2016.
Earthquake Commission, Responses to committee questions, 103–136, dated 1 March 2017.
Appendix B

Transcript of hearing from 8 February 2017

Members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Jami-Lee Ross
Eugenie Sage
Alastair Scott
David Seymour
Fletcher Tabuteau
Dr Megan Wood

Witnesses
Earthquake Commission
Sir Maarten Wevers, Board Chairman
Trish Keith, General Manager Customer and Claims
Bryan Dunne, Acting Chief Executive

Bishop
Morning, Sir Maarten. Welcome to FEC. We’re in your hands. Do you want to talk—

Wevers
I’ll make a few brief comments to introduce, and then we’re very happy take any questions. So, thank you very much. Could I introduce Mr Bryan Dunne, who’s the acting chief executive—I think he’s been before the committee before—and he’s taken up leadership of the commission since Ian Simpson departed before Christmas. And on my left is Trish Keith. It’s her first appearance before the committee. She’s the General Manager of Customer and Claims, based in Canterbury.

I’m sure members of the committee will be aware—and I just mention this by the way of introduction—that the board is very pleased to announce yesterday the appointment of the chief executive to take over from Ian Simpson’s a Mr Sid Miller, who’s come to us from ACC where he was the Chief Customer Officer and General Manager of Customer and Claims. He’s also worked with AXA and range of other relevant organisations. It was a very robust and good search process. We had strong interest, which was always, sort of, of great interest to the board. So we’re looking forward to him joining the team next week.

The report: the period covered by the report, of course, ended some 7 months ago and a lot has happened since then. And in particular, of course, we’ve had the magnitude 7.8 Kaikōura quake that struck on 14 November,
which again tested the commission’s systems, policy processes and settings, capabilities, and staff and management. But I think that event and its aftershocks have also served to underline once more how important the commission’s role and mission is to reduce the impact on New Zealanders and their property when natural disasters occur. Just as the Valentine’s Day quake did in February of last year, almost 12 months ago, that quake on its own, with 14,000 claims, would have been the single biggest event EQC had ever dealt with had it not been for Canterbury. So over the last 4 or 5 years we’ve had a series of events which—

Bishop Is that right? The single biggest, but not with Canterbury?

Wevers The Valentine’s Day quake generated 14,000 claims, which on its own would have been the biggest quake that EQC had ever dealt with if we hadn’t had Canterbury. And then Kaikōura, we’re talking between probably 30 to 40,000 claims. So, we’ve had a series of events, and the resilience of the organisation and the institution and its role in supporting New Zealanders to get back on their feet in relation to their dwellings I think continues to be underlined. And, of course, there’s been a lot to learn, and we’re doing things very differently. We continue to take these events in our stride, and obviously we’ll be happy to update members on events since the conclusion of the period covered by the report.

The annual report sets out the progress the commission and its partners, including Fletcher Construction, Tonkin and Taylor, and GNS Science, have made over the year to 30 June to deliver on our many responsibilities. Completing our work in Canterbury, of course, has been an absolute priority, but we do have also responsibility for our other longer-term objectives, set out on page 31, contributing to a better understanding and management of natural disasters, which is our research and education role, and contributing to the efficient management of EQC’s assets and liabilities. The ongoing high-quality research which we undertake in association with GNS, the universities, and others underscores the special role that the commission undertakes.

In relation to Canterbury, we foreshadow in the report that we were entering the final phase of our home repair programme and the settlement of claims for contents, dwellings, and land, and we expected to have the majority of remaining claims settled by the end of 2016. And we have achieved that objective but there still is a small tail of difficult claims to work through and we’re making good progress on that.

A particular focus during the period under review was how to determine a sound approach for settling claims for land damage where there was increased vulnerability to flooding or liquefaction as result of Canterbury. In the end, as you know, the commission sought a declaratory judgment from the High Court as to our intended approach. We consulted widely on that and we have been settling claims on that basis since the middle of 2016. Members may have observed that litigation was recently filed against the commission by a couple of private insurers, challenging the approach we’ve adopted. As the matter is before the courts, I don’t wish to comment on
that at all. I will just note that work took a very deliberate and careful manner to prepare our approach, and we did go with the insurers to the High Court to seek their view on how we should do that and the court backed our approach.

Our report also shows that although we continue to settle claims and complete dwelling repairs, the pace of both of those areas of service were slower than it had been in the response phase. That is disappointing, but it is not all unexpected. If you look at major event disasters around the world, there is always a long tail of claims that take time to resolve. In fact, the California Earthquake Authority, last year they were still settling the final claims from the Northridge quake of 1994. There are always some that take some time.

Seymour Is that an indication of what we can expect here?

Wevers I hope not. But we’re down to very small numbers and they’re quite challenging. Quite why they’re so challenging and so difficult we don’t know, and the circumstances are all unique, but they’re all being handled individually. The claims we’ve been dealing with over the last year or two have been very complex. I can assure the committee that we’re working as quickly as possible under Trish’s leadership to settle each and every one of those just as soon as we can.

From page 47 in the report, the range of indicators that track our progress in resolving the remaining claims: a lot of those are proceeding as we had hoped, but some are still a little bit slower. We do have, of course, a range of reviews under way, call-backs which we’re continuing to deal with. But, Trish and Bryan will be able to provide more detail should you wish.

In other respects, I just note that the commission has continued to make good progress in strengthening its capabilities and performance at the same time as staff numbers have been managed down as workloads have declined, as was always expected. And the need at the board and management level to juggle the balance between completing Canterbury, dealing with new major events such as Kaikōura and Valentine’s Day, redesigning and reshaping the organisation for the post-Canterbury period, retaining the necessary capability and sustaining our financial health as far as possible has been a very real challenge for the board—a lot of moving parts. EQC has been an organisation under almost constant change in the last 5 years. It will fall to the new CEO, with the support of the board, to prepare the organisation for its next phase, which, of course, we all hope will be rather quieter than the last 5 years.

I’m pleased to report the commission continues to enjoy the strong support of international reinsurance markets. That is essential for our ability to operate and to meet claims. And, in fact, EQC’s reinsurance arrangements also help underpin the entire private insurance market in New Zealand, because we are the single largest purchaser of natural disaster reinsurance in the world. And the fact that New Zealand is so strong in those markets has a positive effect on the position that private insurers take on reinsurance for disasters.
Regrettably, however, one of the impacts of the Kaikōura event now means that the National Disaster Fund, which stood at $6.4 billion on 3 September 2010, will after all be completely depleted, which means we shall have to activate section 16 of our Government legislation and call on the Government guarantee to ensure that our claims responsibilities can be met. That has never happened before. We do not have yet a completely clear understanding of the likely total of claims from Kaikōura or therefore the support required from the Crown, but we’re in close consultation with Treasury around how that might be met. And, as you will recall from our previous annual report, we continue to receive an assurance from the Minister of Finance that the Crown stands behind EQC so that if the fund is sufficient with incoming premiums, claims can be met. It’s another element which shows the resilience of the scheme. We are there and we will be there to make sure that our responsibilities are met.

Our health and safety performance, as the report shows, remains very strong. The board assesses that this will in fact be a lasting contribution to the construction sector in Canterbury. In addition, in recent days the ombudsman and the State Services Commission have published the results of their survey on the performance of agencies and Crown entities and their handling of requests under the Official Information Act, and I well recall coming to this committee 2 or 3 years ago where our performance was not adequate. I’m very pleased to note that after the Police, the commission had the second highest number of requests for information during the period surveyed, which is the same as this annual report—6,785—but we handled 96.7 percent of those requests within the statutory deadline, which was amongst the highest across the entire State sector. So that has been the result of a lot of effort, intense scrutiny by the board, a lot of management leadership, good staff training, and very close consultation with the Office of the Ombudsman to make sure that we meet our statutory responsibilities. And we’re very pleased to have that validated by the SSC and the Office of the Ombudsmen.

So, there’s been a lot that has happened. We’re very happy, of course, to take questions. Our role remains important. We are going through a big transition. You may have seen that 380 staff concluded their service with the commission before Christmas. There will be significant further downsizing as we go forward from here. Managing that effectively and the support of staff and recognising their contribution over the last 4 or 5 years has been a top priority for the board and management. But, you know, we have to recognise the role that they’ve undertaken and maintain flexibility as we design a smaller, leaner organisation, which has scalability and flexibility to deal with whatever may come next.

Very happy to take questions, Mr Chair.

Woods

Thank you and thank you for coming. I think since last time you were here we’ve had another major event which is not something that any of us
wanted to see. Look, I’m sure we’ll come on to the—and I’m Stuart will have questions around covering Kaikōura and we’ll come onto that.

But look, I just wanted to tend to something a bit different, and that relates to question 28 in your written answers, which is around the security issues that you identified—that you had three recorded security breaches in the financial year. The breaches were caused by Ransomware, a malware encryption that locked users out of the system, and to regain access users were asked for payment or a ransom. The incidents lead to the restriction of access to flash media via internet browsers, one net drive was removed from the EQC network, and EQC had to work through that.

Can you please go through and tell us exactly what was the consequence of that Ransomware attack? What data was released and breached? And what personal details were possibly leaked as a result of that breach?

Wevers I don’t have the detail of those particular, you know, response to those questions, and I’m sure we’re very happy to come back later with the written response. I don’t know if Bryan, as acting CE, has anything he’d like to add?

Dunne I’m happy to come back with a written response, but I have no— as far as far as I’m aware there were no information, no personal details, released. It was in effect a Ransomware attack.

Woods OK, just to clarify, Mr Chair, through you, are we recording this hearing?

Bishop We are recording it, aren’t we? Yep, we are.

Dunne We’re very happy; we’ll come back with a written response

Woods That would be great, I do require that.

Dunne Sadly, that is a feature of the modern world.

Woods My supplementary is related, which is question 57 in your written answers, which you identified 559 potential privacy incidents over the year, and this was a record number. At a time where the commission’s constantly telling us that the number of claims is scaling down, it seems odd that you’re having a record number of privacy issues in that year, and 114 confirmed privacy breaches over the year, and 45 were defined as near misses, in your words. So that’s up from 402 recorded in the previous year. So what exactly were these privacy breaches, what information was revealed, and to whom?

Dunne We deal with millions and millions of pieces of paper every year, and phone calls as well. I think, somewhat perversely, the fact that we have a large number of near misses reported is actually positive. Our staff, we’ve
invested quite a lot of time and energy and training the staff to understand their commitments and obligations under the Privacy Act.

Woods So why is the number rising as the number of claims have fallen?

Dunne As the fact that staff are aware of their obligations in saying: “Actually, I’m not sure about this, has there been a breach?”, I think that’s actually a positive thing.

Woods So you’re saying there were breaches previously that weren’t reported.

Dunne No, we’ve been reporting, and, actually, our privacy program has been held up amongst the state sector as one of the best across the state sector. Other people use it as part of the training.

Woods So, just going back to the 114 that were confirmed breaches of privacy, are you able to give me any details, or is that something you’re going to need to come back to me on?

Dunne The most likely cause is going to be address mismatch or a piece of paper included in a letter going out to another customer.

Woods Can the committee get some further information on what those were? And also, and you might not be able to answer it now, whether or not it was linked to the nine devices that were lost by the commission, which actually is high for a Government agency, that number of devices, and whether any of that information was contained on devices that were lost by the commission.

Dunne So all of our devices have a security feature, so once they’re reported lost they’re wiped remotely.

Woods Right, OK.

Cosgrove So none got hacked?

Dunne Not that we’re aware of, no.

Woods Right, OK, I’ve got more questions, but we may—do you want me to continue?

Bishop Yeah, well on that same theme or—

Woods No.

Bishop OK, well, let’s move on.

Sage Thank you, thank you for your work. In terms of the Kaikōura quake and the decision to transfer the assessment and settlement of claims with dwellings over to private insurers, what risks has EQC identified there, and what’s it doing about those?

Wevers Well, can I firstly say that this is a very important new mode of operating in response to the feedback we’ve had right from the early days of the Canterbury earthquake. We sought in fact to have an arrangement where there was a shared assessment process in the early stages of the response to Canterbury. But there were a lot of pressures at that time, and we weren’t able to reach agreement with the private insurers. This has been a very, I
would say, rapidly concluded arrangement, with a lot of good will on the part of both the private insurers, in fact all of them have come into it, and the commission, because we all want to deliver a better service to customers. There is a detailed MOU which has been set up and we’ve just published on the website. There’s been a lot of training undertaken of the private insurers about the operation and the interpretation of the EQC Act. We’ve got the meeting, a teleconference, on it this Friday, which Bryan will be having with the CEs of the private insurers just as the first check about how it’s actually operating. But I don’t know—Trish, do you have any comments that you might be able to offer?

Sage I guess I was interested in, I mean, presumably the benefit you identified was a better service, but yeah, the risks that—because isn’t there a risk that the private insurers will do it to their benefit in terms of, and also, homeowners may lose out.

Dunne The risk is most clearly one from an economics perspective of moral hazard, in effect that the insurers are utilising the Crown’s first $100,000.

Sage Exactly.

Dunne So we’ve invested quite a lot of time in the MOU in both training under the Act, so making sure insurers understand how to apply the EQC Act. As the committee is aware, the Act doesn’t necessarily mirror the private policies that are written by insurers, so there are some exclusions under the Act. The second thing we’re focused on is understanding the pricing, so understanding the marginal cost that insurers will undertake. In plain language, they would need to go to some properties to assess the driveway and the fences and the other scope. So what we were looking for from them was indications of what the marginal cost to do that to a home would be. We have a strong audit program that’s in place over the top—

Wevers Very strong

Dunne —looking at both the application of the Act but also the pricing and the charging. And finally, under the MOU we have step-in rights. If we believe that there are severe or constant misapplications of the Act, we have the ability to step in and take those claims from the insurer. We have step in rights—

Sage So is that step-in rights for individual cases or a whole suite of claims?

Wevers Both.

Dunne We also have in there, outlined for them, their obligations under the Official Information Act and the Privacy Act as well, and both the Privacy Commissioner and the ombudsman have provided training and assistance to the insurers to understand their obligations under that as well. So I believe we’ve done everything that we can to ensure that whilst it delivers a better customer service, or intending that it does, we’re also being prudent and careful given our role as a State sector organisation.

Wevers I think our board and certainly the private insurers were very keen to see this as an opportunity to try and do something differently. It’s an
innovation, so there’s obviously risk with it, but we’ve been very, very
careful to assess that risk. I think, as Trish advised me just yesterday, one of
the benefits of this is the private insurers often have, for example, if it’s a
rural property or others, they’ll be dealing with things which are not covered
by us, farm buildings and that sort of stuff, and their relationship is not with
EQC in the first instance, it’s with their private insurer. So the private
insurers will be taking the lead and doing work on our behalf. So it’s a one-
stop shop for the customer, and what it also means is where, for example,
there’s very obviously an over-cap claim, we’re able to make that decision
very quickly, and say this building has clearly got more than $100,000 worth
of damage, and we transfer the whole management of the claim. And I
think we’ve had, already, a good number of claims—

Keith Ninety-five.

Wevers Ninety-five claims have already been handed over in entirety, which is a
different rate of doing that to Canterbury, quite remarkably.

Dunne That’s handed over and paid.

Wevers Handed over and paid.

Sage And will you be reporting separately on this in your next annual report,
quite comprehensively on how this has gone?

Wevers Yes, we will.

Woods Just related to that and the practicalities of running the relationship. Does
the MOU cover in what circumstances engineers or other experts or
professionals will be brought in in terms of the assessment?

Dunne Yeah, that’s one of the things we are discussing with the insurers, about
when do we apply technical resource. One of the things that we did very
early on, by way of background, is we created a GIS, or a—you know, a
GIS location platform. So we’ve been able to map land damage,
information from CoreLogic, which is a property information provider,
map both the claims and the properties across that, so that where we saw
combinations of heavy land damage and—

Woods So they’re for drilling.

Dunne Sorry?

Woods You’ve been drilling to put together that map?

Dunne No, not drilling, no. So we have off the Geonet platform that we sponsor,
we’ve got shake data, so we’ve been able to map shake data with land
damage, and then talk to the individual insurers about a more efficient
deployment: why don’t we go on that site with a geotechnical engineer
along with your structural engineer. So we actually get the one visit, where
we can, with the right technical expertise. That’s easier for the customer,
getting the one visit from the technical experts. It’s more efficient, and I
think it speaks to a better deployment of what you would know as a very,
very scarce resource. I think the Kaikōura impact here in Wellington
showed just how scarce engineering and geotechnical resources are up and down the country.

Woods  So who’s going to pay for these reports?
Dunne  Well, we will—if they’re under cap. We also have agreements with the insurers about the cost share of these as well.

Woods  How does the claimant fit into that? So can the claimant request that?
Dunne  The engineering reports?
Woods  Yes.
Dunne  Yeah, absolutely. I think that’s partly what drives some of the OIA requests in the volumes that we have.

Woods  So, no, I mean within your new scheme under the MOU.
Dunne  Absolutely.

Woods  In terms of the complaints process that will be set up to cover this new way of doing things, what say a claimant has a problem with scope rather than the quality of work in terms they believe that they’ve been under-scoped, and therefore not over cap, so the moral hazard that everyone’s identified has been called into play in the claimant’s eyes. How will the commission manage that process, or will you leave that to the insurers to manage their own complaints process?

Dunne  At the moment the insurers are bound under the fair insurance code in terms of a disputes resolution practice or process that also, once it gets to deadlock, is referred to external parties for mandatory or binding resolution. And as part of that—we haven’t had any complaints lodged with us yet, or the insurers that we know of yet—in that process, the same as what we do with customers at the moment, if there are questions or complaints raised about scoping, first of all the insurers will be dealing with that, but if we think that there is a systemic issue, then we will step in. We have step-in rights.

Woods  So using this new way of doing things, when do you estimate that all the damage will be assessed and claims lodged from the Kaikōura event?
Dunne  The lodgement period as you know is still open.
Woods  Till the 14th of February.
Wevers  Next week.
Dunne  And there’s a Scargill event after that as well. At the moment I think our earliest—and, as you can imagine, very early on in the process the initial modelling estimates tend to overestimate the number of claims. At the moment we have just over 24,000 claims lodged with EQC. There are a number of claims that will have been lodged with private insurers that have yet to be lodged with us from the insurer. We have an incentive arrangement in there. They won’t get paid unless they have an EQC claim
number so there is an incentive for those insurers to provide us with those claim numbers.

Woods

And will they be apportioned or is everything being ascribed to one event? Or is that still unclear whether that is going to become an issue?

Dunne

Unfortunately, because of the 2011 declaratory judgement about when EQC cover reinstates, if there are further aftershocks—and we know there has been a series of those with Kaikōura unfortunately at the moment—that is a consideration. But looking at the claim lodgment pattern to date, most of the claims were lodged immediately after the 14th November so there will not be subsequent damage for many of them. Some of ones that were paid over cap immediately, post 14 November—clearly we’ve met our obligation for that damage.

Wevers

OK, but, of course, were there to be a further event those questions will arise again.

Scott

My question relates to your balance sheet, so as of the middle of June or end of June your liabilities exceed your assets. There was some concern about the going concern of EQC, and now we have had another earthquake. So can you take us through the process if and when you need to call on a Government guarantee to bolster and/or improve the state of your balance sheet?

Wevers

Well, I’ll make some introductory comments. Bryan has been leading the engagement with Treasury on this. In fact, a slight correction to you, if I may, with respect. We are a going concern and we have sought a letter every year from the Minister of Finance in relation to our annual accounts which are audited, of course, not only by our auditor which has been Deloitte hitherto and also the Office of the Auditor-General which provides the guarantee that should we get to the position where we need to call on the guarantee, the Crown will front and that is really important to meet that standard.

The process, which, as I say, we haven’t yet ever undertaken, is set out in section 16 of our Act, where the Crown does guarantee to meet any claims that we are not able to meet ourselves. So we had hoped with Canterbury, that we might be able to get through with our reinsurance of about $4.5 billion and our Natural Disaster Fund of $6.4 billion. By quirk of fate that was roughly our liability so we thought we might be able to get through without calling on the taxpayer at all, which would have been an extraordinary achievement.

Kaikōura meant that we are no longer in that position so we are working through, literally at the moment, with Treasury who are the policy advice agency. They give the advice to the Minister of Finance about how this would be enacted, what the various options would be, when a payment might be made, under what circumstances, and how much and how that will be treated. That is a separate question I might say, to the rebuilding of the Natural Disaster Fund which is what we do with our premiums and the board has got that as a very key priority. We are also engaged with Treasury
in discussions about our risk financing strategy around how quickly and to what extent, and to what target, we seek to build that over what period of time, and that is a key strategic priority going forward.

Scott

What is the timing of that process that you are doing with Treasury?

Wevers

We have been talking to Treasury now for more than a year on the general question of rebuilding the fund, the additional bit being section 16. But it’s under way at the moment.

Dunne

Treasury is the primary policy adviser on section 16. We have had a very constructive engagement with them over the last year about a number of elements of risk financing. The two points that need to be clarified or determined are, first, what is the mechanism—is it an advance or is it a grant? I think you will appreciate if it is an advance that really doesn’t change our financial position and it creates an obligation at the same time. Then the second point is the one you are asking about, which is the trigger. When would that actually get triggered?

With the Kaikōura event still being open in terms of claims lodgement we don’t have a good view, or a more refined view, about the overall liability yet. Once we have got a more refined view of the overall liability, then we will be discussing with Treasury the trigger point. At the moment it is a matter of public record that we have a ministerial direction in relation to our investments. Once they reach $200 million we need to advise our Minister. At the moment we have just on $1 billion in the bank. That is fully committed to Christchurch and Canterbury claims.

Wevers

I might note that although it is called the Kaikōura earthquake because that is the region in which it happened, in fact the largest number of claims and the biggest liability for us is in the city. So it’s quite a challenge.

Cosgrove

I am going to ask you what might appear to be a rather strange question, but could you define for us, in EQC terms, what you would mean by the word “completed”?

Wevers

Yes, well that’s a challenge that, I think, has been discussed around the board table at almost every meeting since I have been here. We have—

Cosgrove

I am not just talking about claims. I’m talking about tasking, operations, management systems, etc.

Wevers

I think it’s very, very difficult to give a clear answer to that. We are talking about claims completion. There is financial completion. There is administrative completion. As you know, because of the building guarantees that we provide we have an obligation for 10 years under that legislation to stand behind the quality of any repairs, and I would hazard a guess that 6 or 7 years down the track somebody will come to us and say: “The repair done on my house in 2013 wasn’t quite right” and it will be reopened again.

And I go back to that example of the Northridge earthquake—20 years after the event they still had occasional claims that they were settling. So it is quite difficult and actually we have had quite a number of discussions around this with the Office of the Auditor General and our auditors too.
We know we’re going to get very, very close, but whether we can actually say we’ve ever finished settling the impact of the Canterbury claims and the Canterbury events, I think, is—I think we’d seek your understanding of that. I don’t think we would ever say: “This is completely underlined and signed off and a fullstop.”, because the next week somebody will come back and say: “Aha, there’s a suit that I want to reopen.”

Dunne In addition to the admin, financial and practical completion in terms of demob, we’ve got some practical issues as well. We have some customers who are not contactable, offshore, so to some degree we will have open claims.

Cosgrove I accept that but that, with respect, if you are in the building industry, you have a 10 year guarantee. You produce stats based on these definitions right? So the thing I am struggling with is—and I’ve been looking it up as we have been speaking to get my head round this sort of school cert, sort of, English question—but in business if you build a house, it is completed. There is a 10 year warranty on it. If somebody comes back and says: “Hey you’ve messed it up” or something is wrong with it, and repairs or immediate measures are necessary, it moves from the completed column to the uncompleted column. It’s pretty simple.

If you move from claims—and I offer some flexibility on what you’re saying—but if you move from claims to financial control systems, it’s either completed—you’ve set it up, it’s working—and if it requires upgrading or it requires some alteration, it moves from one column to the other. Because we sit around here trying to get our heads around if the Audit Office—you mentioned them—which has expressed the same view to us this morning, that they can’t get their head around when they are measuring you guys because you guys can’t find what completion is. Now if every other entity, an insurance company, for instance—I’ve seen insurance stats define what completed means, then why can’t EQC?

Wevers We can certainly measure elements of that with an asterisk to say “subject to”. For example—

Cosgrove Is that reflected in your stats? Is that how you report?

Wevers Yes. We have now finished the process of embarking on every single house repair. There are no more house repairs. We’ve had 67,700-odd that we have been dealing with, and at the last board meeting we had there were two that were still waiting to be signed and the two is now zero.

Cosgrove Two?

Wevers Yes, and now we’ve got none that are waiting to be started in the Canterbury home repair programme, so we could say we have completed
the process of launching those. Now, some of them are still under construction—is that right, Trish?

Keith That’s right.

Wevers And once those are finished, then we can say we have finished that. There are elements—I understand entirely your frustration Mr Cosgrove, and it is a frustration that we share. We can get very, very close.

Cosgrove I suppose my question is—and Audit has raised it with us so obviously they have some concerns in terms of trying to ascertain performance. The other commercial entities generically have exactly the same difficulty—insurance companies dealing with claims as well. But, just even moving aside from claims, your operational tasking, set-up of management systems, setting-up of monitoring systems, those sorts of things—you know, if you’re project managing these things you have a gantt chart, you move to completion. I am not trying to debate the English language; I am just trying to get a handle why you guys are so unique and why it is you have data dictionary. And just on that point, I would be grateful if you could furnish this committee with a copy of your data dictionary. I can’t find it on your website and if you guys can’t tell Audit what a completed project is, with respect, is it any wonder that folks who don’t have your level of skill, can’t get a handle on the same concept as well.

Wevers In terms of projects, we have had many, many projects and setting up new IT systems, HR systems. All of those go through ordinary project methodology and they are completed. There have been literally hundreds of those things.

Cosgrove Why would Audit raise it? They have concerns, and they raised the issue about the definition of “remedial”. They have concerns, and they are the ones who provide us with advice to measure performance. So you can understand—I’m not being pedantic; I am just want it to be clearer.

Wevers There are definitional areas here. We discuss these matters regularly with the auditors at our board meetings.

Cosgrove I’m sure when IRD comes before us—they have a major business transformation. They are dealing with very similar issues in terms of their operational structures. Hopefully, they can define what completed means, remedial means, all these sorts of things. These are generic issues. So can you furnish us with a copy of your data dictionary?

Wevers Yes, we can do that.

Cosgrove My final question is do you have a view—and you may not be able to comment, but the recent report about the 3,000-plus or 3,500 over-cap claims, and I note you were talking to a Green colleague in respect to her question, but can you express a view as to the quality of the performance of
the private insurance sector in relation to those claims given it is 6½ years plus.

Wevers I would prefer not to comment on the performance of the private insurers. They’ve had their own challenges, and we have worked assiduously, right from the start, to be as close and supportive of the private insurers as we can. I would just note that the level of claims that have been handled by private insurers is much, much lower than us but they are very different. We have repaired 67,000 houses. The private insurers have had a much smaller build programme. We, of course, have done 88,000, I think, contents claims. They have had a much smaller number. So our volumes have been greater; lesser value. Their numbers have been smaller but some very significant and major rebuilds and, of course, they have got their own pressures.

Bayly First, I want to come back to early December last year. I went round to Kaikōura for 3 days with my colleague Stuart Smith, who is MP for that area. When we went into some of the places what I found a real revelation was here was EQC, insurers, all the district councils, everyone there having the same meeting once rather than the sequential process that normally happens. So just a compliment, actually, seeing everyone on the ground doing it as a team. So well done.

Wevers Thank you.

Bayly I have to say that people we spoke to were incredibly appreciative to know that they weren’t having to have multiple meetings with different parties, each having conflicting views—decisions being made at the same time.

Wevers Thank you.

Bayly The question I really want to ask you is that given the impact of Kaikōura, which you weren’t anticipating—you were starting to make a restructure and, of course, this has now come along and all these 24,000 claims you talked about. What does that mean now for your restructure in terms of setting the organisation up to deal with that next hump of claims?

Wevers Very good question. We had signed off on the basis of recommendations from management: a reshaping of the organisational process, which as I said saw 380 staff conclude their services with EQC in the week before Christmas. As a very specific and deliberate process, management considered whether the impact of Kaikōura should, in turn, have any impact on that plan, which had been very carefully considered about what sorts of capabilities we needed given we were in that stage of the process in Canterbury.

And the conclusion from management to the board was that we should proceed with the plan that we originally had, that with the model we were moving to we would have a core team of essential capabilities and we would have a specific, flexible capability for dealing with any new events that might arise. So that is part of our business model going forward and that is, in fact, the way in which we’ve done it. So we have, in fact, at the same time as we were relinquishing staff from some roles Trish has been recruiting
new staff specifically to handle Canterbury, and that has resulted not only in some new talent but some fresh legs, you know, and people off the bench who were very committed to take things forward to the next step. I don’t know Trish if you want to have any further comment on that.

Keith Thank you, yes. The idea with the private insurers wanting to front this event for the EQC component means that there is actually a more flexible workforce available to the industry, and in fact many of them have picked up the people that were working for us. So they have picked up those skills which, I think, is good for the industry because it permeates through otherwise what wouldn’t be there.

Sage Just returning to the Natural Disaster Fund, how long did that fund take to build up, and has the increased incidence of earthquakes affected EQC’s assessment of how much should be in the fund for the future, and when is the board likely to be making a decision?

Wevers I will kick off and then pass to Bryan. This goes right to the heart of what the board’s mandate is to run it. We have to take responsibility under the legislation to ensure the adequacy of that system. The EQC Act dates from 1993. Prior to that it was Earthquake and War Damage Commission, and from that point we had a dedicated fund set up. So from 1993 the $6.4 billion was built up. There are a number of options that the board has been looking at about what the optimal size of the fund is. We assess that against the seismic risk in the GNS stuff. That is a very variable piece. The scientists seem to think we are in a more active period, so should we make bigger provision and then how quickly should we seek to rebuild that is quite a difficult strategic question and it’s under intense deliberation at the moment. Bryan is at the head of those discussions.

Dunne If you’ll forgive my coarse language, the NDF is a rainy-day fund and it’s been peeing down for a number of years now in Christchurch and elsewhere. We’ve gone through a process working with geotechnical and geophysicists and scientists looking at what’s called maximum probable loss, so as an insurer, what is the worst case scenario that you should provision for.

Christchurch taught us that you should also contemplate multiple events being a worst case scenario as well. So we run through the geological records, so the known earthquakes and events that have happened in New Zealand, and have looked at the maximum probable loss arising from those. The reference points go from somewhere around $4 billion to something like $12 billion and upwards, and that’s for something that sounds like a Hamilton heavy metal band but actually is the Hikurangi megathrust, which is a known fault line.

We’ve had this conversation with Treasury and others over the years in terms of what’s the correct amount that EQC should provision for, and we’re actually going through that process with Treasury now—looking at what’s the risk that the Crown can bear. Successive Governments, as you know, have focused on balance sheet management and ensuring that New Zealand’s overall finances are strong. That enables the Government to
make some choices about what risks it wishes to bear and what risks it wishes to provision for in terms of a rainy day. We’re just going through that conversation.

Bayly Is that a net or gross figure? Is it based on reinsurance?

Dunne That would be the EQC loss prior to reinsurance.

Bayly That makes it considerably smaller.

Wevers Could I note that although the fund is now depleted, we do have significant reinsurance contracts in place.

Woods I understand that.

Wevers I want to assure the committee that a key part of our current expenditure profile, apart from handling claims, is to ensure that we negotiate the very best deal we can with the reinsurance markets so that in the event of another significant hazard materialising the shock absorber role of the commission, even without the fund, will be able to be managed. There will be, as we’ve said, some section 16 impact in any event now but our reinsurance currently kicks in from $1.75 billion, so the Crown is at risk for that, but the cost of filling that gap with reinsurance becomes more and more expensive because of the risk. On the basis of an informed judgement, we assess what is that risk. But for a large event, a mega event in New Zealand, we do have substantial reinsurance in place.

Dunne And one final observation on that, which would be: questions about the industry’s performance and our performance—I think the fact that reinsurance is still available for New Zealand for seismic risk—

Wevers Without exception.

Dunne —and without any geological or geographical exceptions speaks volumes of confidence in the way that the insurance sector operates here.

Woods You are probably expecting these questions, so I do not know if you’ve got the numbers with you: the number of remedial requests, the number of remedial cases, the cost of those—where are we at with that?

Dunne In terms of remedial requests, on hand we have just over 5,000. As you know and as we’ve advised the committee—

Woods That’s 5,000 outstanding?

Dunne Correct. There’s always a flow of people asking or questioning whether or not their repair has been done correctly. It runs the gamut between subjective: “Actually, I think I don’t like the finish of that; the painting’s not quite good”, through to the objective, which is questions about whether or not it meets the building code. So within all of that, there may be requests
but they may not generate remedial action. In terms of inflows over the last month or so—

Keith  One hundred and thirty-nine came through in January, so it slowed down significantly.

Woods  One hundred and thirty-nine in January; that’s still significant.

Wevers  But we never close the gate, you know, so anyone of the 460,000—

Woods  So you had a target of 8 percent or less of customers who’d used the repair warranty provisions of the Building Act. You didn’t report on that in your annual report. Why didn’t you?

Dunne  Because that was about the repair warranties for the actual legal obligations.

Woods  But you had a target and you didn’t report on it. Why didn’t you?

Dunne  Because I think that target was misstated. It was about the use of the repair warranties provisions under the Building Act.

Woods  So you’ll be removing that target for next year?

Dunne  We haven’t reported on it; I think we have that statement in the annual report this year.

Woods  So you have the statement but you won’t be reporting on it.

Dunne  Because it’s the wrong target. Actually what we should be looking at is those call-backs, where we’ve been asked to come back and whether or not they have resulted in rework.

Woods  Just on those call-backs—the remedial repairs—what’s happening with the accommodation costs for people that are having to move out of their house? You were doing it on a case-by-case basis. The claimants were having to pick up the tab for their own accommodation in some cases when they moved out to have repairs done because EQC and the home repair programme hadn’t done the repairs correctly. Are you going to put in place a policy for that or are you going to continue to make completely subjective judgments about that?

Wevers  They’re not subjective.

Woods  Well, what’s the criteria that’s used, then?

Dunne  I think shifting somebody out of their home should be the last thing that you contemplate because it’s quite disruptive.

Woods  What’s the criteria that’s used? The chairman said that they’re not subjective judgments, so what’s the objective criteria that’s applied?

Dunne  If the repair requires either for health and safety reasons, or actually the repair is so intrusive that it does require people to move out, that’s where we look at those.

Woods  Yes, you’ll look at them but you are not paying them. There are a number of people who have had to move out of their homes where EQC have not
paid for their accommodation and declined that request. So that can’t be the sole criteria.

Dunne That’s the criteria for the requests that have come through to me that I have been signing off on.

Woods OK. We’ve got cases, we’ll bring them directly to you, where people who are meeting the criteria you’ve explained to us here but are having to pick up the tab for their own accommodation.

Dunne Also people under their contents and sometimes their private house policies have entitlements under those policies.

Woods But they’ve already used them during the first round of repairs so it’s not applicable, and the private insurers are really clear that this is EQC’s responsibility because this is about fixing repair jobs. Is that criteria in writing somewhere and can I have a copy of it?

Dunne We’ve been asked about our policy in the past, so yes.

Woods Thank you. If you could forward that through to the committee, that would be great.

Cosgrove Criteria rather than policy.

Dunne Yes, sorry; my apologies.

Bishop We are out of time. Thank you very much, Mr Chair, acting CEO, for coming in.

Wevers Thank you.

**conclusion of evidence**
2015/16 Annual review of the Electricity Authority
Report of the Commerce Committee

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Appendix 5
Electricity Authority

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Electricity Authority, and recommends that the House take note of its report.

Introduction

The Electricity Authority is an independent Crown entity that provides regulatory oversight of the electricity sector. Its statutory objective is “to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers”.

The responsible minister is the Minister for Energy and Resources, and the authority is mostly funded by appropriations from Vote Energy. The authority’s chief executive is Carl Hansen. Dr Brent Layton is chairperson of the board.

Financial performance and audit opinion

In 2015/16, the authority’s total revenue was $73.066 million and its total expenditure was $72.527 million, which resulted in a net surplus of $539,000. This compares with revenue of $71.69 million in 2014/15 and a surplus of $597,000.

The Office of the Auditor-General gave ratings of “very good” for the authority’s management control environment and its financial information systems and controls. It rated as “good” the service performance information and associated systems and controls, recommending some improvements. We are pleased to note that the authority has addressed recommendations from previous years, and continues to focus on improving the performance reporting in its annual report.

Review of transmission pricing methodology

Proposal

The authority has been reviewing the methodology used by Transpower (the national grid operator) in determining what it charges customers (generally power companies) for electricity transmission. The authority’s aim is to avoid wasteful use of the transmission grid by ensuring that charges are linked to the costs involved and the services provided.

In May 2016, the authority released an issues paper that proposes to change the two main types of charge. Instead of charges for the high-voltage, direct current link between the North and South Islands, and an interconnection charge, it proposes an area-of-benefit charge and a residual charge.

The residual charge, or broad-base, low-rate charge, would only apply to load customers and would be allocated in proportion to a customer’s share of historical physical capacity. The authority’s proposal says the residual charge would be more even than the interconnection charge. The residual charge would cover any additional costs that need to be paid to Transpower not otherwise covered by the transmission pricing methodology.
The proposed area-of-benefit charge would allocate charges to different areas of the country based on the benefits they receive from particular grid investments in those regions. This would mean an initial increase in prices for some regions and a decrease in others. The area that would be faced with the highest increase would be Ashburton, where the average consumer’s electricity bill would increase by $117 a year.

**Public response**

We asked whether the authority was caught off guard by the depth of feeling the proposals generated. We note that New Zealand has tended to spread the costs of major projects like grid investments across the country. The authority conceded that it will be impossible to satisfy everyone. This is why it has been so thorough in its cost-benefit analysis and in investigating potential legal challenges.

**Accuracy of area-of-benefit charge**

We sought assurance from the authority that it was confident the defined areas of benefit accurately match the geographic areas that receive the benefits charged for. The authority explained that technological advancements mean it is much easier to define areas of benefit than it was 15 years ago.

It explained that New Zealand operates under a nodal pricing regime with 250 nodes. It said it also does modelling to calculate what power prices would be in each area with and without particular sets of transmission assets. From this, it works out the impact on price and reliability. The authority said it is “reasonably confident” about the accuracy of the potential area-of-benefit charges, but said “perfection will not be something you can achieve in any of these things”.

**Project management and cost over-runs**

We discussed the adequacy of the authority’s management of projects and budgets. We are concerned that spending on various high-priority projects in 2015/16 ran substantially over budget, while projects of lower priority were delayed. In particular, we note that spending on at least two projects—including the authority’s important transmission pricing investigation—has been about three times the budgeted amount. The reviews of frequency-keeping services and instantaneous reserve markets have spent twice what was budgeted.

It appears that other projects of lower priority were postponed so that the authority could stay within its overall budget. This is also of concern to us, as it suggests a lack of planning. We asked the authority whether it has confidence in its project planning processes. We also sought an assurance that this pattern of overspending would not be repeated.

The authority told us it believes its planning processes are sound. However, 2015/16 was an unusual year. The authority explained that several current projects are quite contentious, and considerable expense had gone into pre-empting, or dealing with, legal challenges. In addition, with the transmission pricing project it had paid for overseas experts when consultation indicated that cost–benefit analysis and external modelling was desirable. The authority also noted that the extended reserves management project had proved to be much more extensive than originally expected. The authority assured us that it does not expect to see the pattern of cost over-runs and delays repeat in the future.

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1. Electricity Authority, Response to written question 8.
We acknowledge that in the past the authority’s spending has been much more in line with its budget.

**Recent developments in the security of supply**

The authority explained to us that the market continues to signal that enough new plants will be built to ensure security of supply. Since 2000, retired diesel and gas plants have accounted for about 900 megawatts of capacity being taken out of the market. However, the authority believes the market “is continuing to signal that sufficient new plants will be built to provide security of supply”, and noted that much of the new supply is renewable.

**Additional charges for solar users**

We asked whether Unison’s extra charge for solar users breached the Electricity Industry Participation Code. The authority said it does not believe so, based on the legal advice it has received. It has written to distributors asking them to be clear with consumers in advance before they implement such charges in the future, and to indicate time lines. The authority agreed to share the letter with us.

**Use of domestic travel budget**

We note that a third of the authority’s travel budget was used by the board, which seems very high. The authority explained that this is because of the geographic spread of the board’s members, who must travel for meetings, and the fact the board actively visits stakeholders.
Appendix

Committee procedure
We met on 17 November 2016 and 2 March 2017 to consider the annual review of the Electricity Authority. We heard evidence from the Electricity Authority and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Electricity Authority, Responses to written questions 1–102, dated 15 November 2016.

Electricity Authority, Responses to additional written questions 103–107, dated 13 December 2016.

Office of the Auditor-General, Briefing on Electricity Authority, dated 17 November 2016.
2015/16 Annual review of the Broadcasting Commission, the Electricity Corporation of New Zealand Limited, the External Reporting Board, Meridian Energy Limited, Mercury NZ Limited (formally known as Mighty River Power Limited), the New Zealand Tourism Board, the New Zealand Venture Investment Fund Limited, the Takeovers Panel, and the Testing Laboratory Registration Council of New Zealand

Report of the Commerce Committee

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Broadcasting Commission, the Electricity Corporation of New Zealand Limited, the External Reporting Board, Meridian Energy Limited, Mercury NZ Limited (formerly known as Mighty River Power Limited), the New Zealand Tourism Board, the New Zealand Venture Investment Fund Limited, the Takeovers Panel, and the Testing Laboratory Registration Council of New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Melissa Lee
Chairperson
The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of FairWay Resolution Limited.

We note that, in 2015/16, FairWay Resolution Limited delivered substantially fewer family dispute resolution cases than the 4,000 it was expecting to be contracted for under its agreement with the Ministry of Justice.

This was a concern we raised in the 2014/2015 annual review of FairWay Resolution Limited.

We will be recommending that a hearing of evidence be conducted with FairWay Resolution Limited in the 2016/17 annual review round to monitor progress on this issue, which affects revenues.

We have no other matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jonathan Young
Chairperson
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Appendix 5
Financial Markets Authority

**Recommendation**

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Financial Markets Authority, and recommends that the House take note of its report.

**Introduction**

The Financial Markets Authority (FMA) is an independent Crown entity established in 2011. Its primary purpose is to promote and facilitate the development of fair, efficient, and transparent financial markets.

The responsible minister is the Minister of Commerce and Consumer Affairs. The authority’s chief executive is Rob Everett, and Murray Jack is chairperson of the board.

**Financial performance and audit opinion**

The authority’s revenue in 2015/16 was $29.898 million, of which 92 percent came from the Government. Its financial result for the year was a loss of $4 million. This was slightly less than the expected loss of $4.4 million. This loss is equivalent to 13 percent of revenue.

The Office of the Auditor-General (OAG) noted in its audit that the FMA’s ongoing financial viability depends on the outcome of the current funding review.

The OAG has recommended some improvements in the performance information provided in the FMA’s annual reports. It suggests that some measures of its strategic intentions could be clearer, so that stakeholders know what it intends to achieve and how good performance will be assessed. We hope to see this addressed by our next review.

**Future funding and direction**

In November 2016, the Minister announced that the authority will receive an additional $9.8 million a year commencing 1 July 2017. This represents an increase of 33.5 percent on its expected revenue of $29.26 million in 2016/17. Because the additional funding will come from industry levies, the funding split in future will be 70 percent from the Government, and 30 percent from stakeholders.

The authority told us that this funding is critical to help in carrying out its new remit under the Financial Markets Conduct Act 2014. As of 1 December 2016, the authority has completed its transition from the Securities Act regime to the new Act. It describes itself and its enabling legislation as moving from a transitional stage to a fully-fledged financial markets conduct regulator.

Under its new remit, the authority has licensed 190 financial services firms since the Financial Markets Conduct Act was passed. These firms include equity crowdfunding platforms and peer-to-peer lenders, and also sole trading businesses such as independent trustees. This is in addition to the 1,800 authorised financial advisers who were already licensed under the Financial Advisers Act 2008.

The authority has also received stronger enforcement powers when dealing with breaches of the Financial Markets Conduct Act. However, it noted that a sign of success will be
preventing issues in the industry before they happen, not after them. It said it would also
be alert for instances where firms meet the legal test under the legislation, but their conduct
is poor. It is focusing on developing its analytical capability and systems so it can assess
data and risks effectively in its monitoring of the industry. We will follow its progress with
interest.

**IMF review**

We heard that the International Monetary Fund (IMF) has just completed a review of New
Zealand’s financial services regulation. This included the licensing of fund managers, an
area where the IMF’s review in 2003 had found New Zealand to be an outlier in its
practices. While its report is yet to be finalised, the IMF is expected to acknowledge the
transformation New Zealand has made in its regulatory framework for financial services,
which now fit within global norms. The IMF appears comfortable with the authority’s
approach to improving standards within the industry. The authority told us it found the
review useful. While the report is likely to include some recommendations, the authority
does not expect them to require major changes in its practices.

**Shareholder confidence**

Some of us are concerned that investor confidence appears relatively low, with only 59
percent of investors expressing confidence in New Zealand’s sharemarket.¹ The authority
explained that memories of the 1980s stock market crash and the global financial crisis are
still fresh in the mind of many investors, so confidence remains relatively fragile. It also
noted that it is hard to know what a healthy level of investor confidence would be. The
authority reported that investor confidence was higher last year, at 65 percent.² It believes
this level of confidence was brought about by broad market sentiment which can be
influenced by international developments, rather than a lack of trust in regulators or
industry participants.

**Regulatory framework**

We asked about the adequacy of the legislative framework for financial markets, noting that
the authority has oversight of 19 different laws. The authority agreed that a good legislative
framework is essential for there to be confidence in the industry. It expressed full
confidence in the effectiveness of the framework, describing it as “absolutely what it needs
to be”. The authority said it is comfortable that the framework gives it the powers it needs.
Beyond this, it said, it is working to encourage the industry to improve its standards of
conduct beyond the legislated minimum.

**Governance of New Zealand businesses**

We discussed whether those in governance roles have the skills and competencies needed.
We note that many board directors and chairs in New Zealand can be working on several
boards at once, so they may not grasp all the issues that come before them. The authority
agreed that there is a shallow pool of experienced board members.

The authority said that the finance company failures had been a wake-up call for directors.
There is now much greater awareness in the boards of large and listed companies of their
governance obligations than there had been 10 or 15 years ago. It says there is still a great

wobbles-dent-confidence-but-investors-are-positive-about-regulation/.
2 Ibid.
There is a deal of work to be done in improving governance and accountability more broadly among financial services providers. It would like to see more experienced board members working with smaller businesses. To do this, it would need to convince people that good governance is extremely important at an early stage while a business is growing. The authority said that it is working with New Zealand Trade and Enterprise, the Institute of Directors, and others regarding these matters. We look forward to seeing results from this work in the future.

Financial providers and schemes

KiwiSaver scheme

The KiwiSaver scheme has allowed the New Zealand public to make decisions on their retirement fund investments. This is often the first time a consumer has been involved with investments. We asked how risks around KiwiSaver have been communicated to the general public. The authority said that those with KiwiSaver often know little about the Financial Markets Authority, or the financial market in general. Along with the Commission for Financial Capability, it is trying to get information out to the public so that they are better informed. If an issue does arise with KiwiSaver, the authority said it would get it known publicly.

We are aware that the fees charged for managing KiwiSaver funds may be hidden in statements or buried in the pricing. The authority said a core part of its work is on trying to improve the clarity of disclosure about fees for the lay public. This includes examining whether the public would prefer percentage or dollar values when given their KiwiSaver scheme statements.

Peer-to-peer lending

We asked about the risks of peer-to-peer lending and the regulatory controls in place, as it is a relatively new form of lending in New Zealand. The authority told us it is a bit early to gauge as there is only one significant peer-to-peer lender at present. So far it is comfortable with the risk profiles. However, New Zealand has been in a “relatively benign” interest rate environment, and risks would increase when interest rates rose and the rate of defaults increased. In such a situation, full disclosure of risks will be vital. The authority is comfortable that existing legislation would allow it to respond as needed.

Financial literacy

The authority noted that financial literacy in New Zealand is very low. When we asked how financial literacy could be increased, the authority told us that it generally focuses on investors, and customers are largely outside its remit. However, working with KiwiSaver has involved it more with customers. It stressed that New Zealanders should start learning about finances from as young an age as possible. We agree fully.
Appendix

Committee procedure
We met on 1 December 2016 and 9 February 2017 to consider the annual review of the Financial Markets Authority. We heard evidence from the authority and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Financial Markets Authority, response to written question 37, Sensitive Expenditure and Gifts Policy, received 28 November 2016.

Financial Markets Authority, response to written question 40, Conflicts of Interest Policy, received 28 November 2016.

Financial Markets Authority, response to written question 63, Consultants and Contractors, received 28 November 2016.

Financial Markets Authority, response to written question 90, Salary levels by age and gender, received 28 November 2016.

Financial Markets Authority, response to written questions 1-102, received 28 November 2016.
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Appendix 6
Genesis Energy Limited

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Genesis Energy Limited, and recommends that the House take note of its report.

Introduction
Genesis Energy Limited is an energy company that sells electricity, natural gas, and LPG through its retail brands—Genesis Energy and Energy Online. Genesis is New Zealand’s largest electricity and gas retailer with 646,185 customer connections.

Genesis owns and operates thermal and renewable generation assets, including the Huntly Power Station and the Tongariro, Waikaremoana, and Tekapo hydro schemes. Genesis also has an interest in the Kupe joint venture, which owns the Kupe oil and gas fields.

Genesis is a mixed ownership model company and is registered under the Companies Act 1993. It is majority owned by the Crown (51 percent).

Leadership
Genesis’s chairman since November 2009 is Dame Jenny Shipley. Genesis has made some major leadership changes in 2016. Marc England is the new chief executive officer, since May 2016, replacing Albert Brantley. There have also been some new appointments to the board.

Financial results
In 2015/16 Genesis produced group revenue of around $2 billion and made a post-tax profit of $184.2 million. This net profit after tax was up from around $104 million in 2014/15. The increase can largely be attributed to the revaluation of its generating assets.

The Office of the Auditor-General reviewed the basis of the valuation change and concluded that the carrying value of the generation assets is reasonable. The office assessed Genesis’s management control environment and financial information systems and controls as “very good”.

Increased share in the Kupe joint venture
Genesis recently announced that it has increased its shareholding in the joint venture that owns the Kupe oil and gas fields, from 31 percent to 46 percent. We note that Genesis has recently agreed terms with New Zealand Oil and Gas to acquire its 15 percent share of production and future reserves from Kupe.

Genesis told us that the deal will benefit all of its shareholders, as it enhances the influence of Genesis in the joint venture that owns Kupe. Increased ownership would also allow better control over the future of the field and provide commercial leverage. Additionally, the greater shareholding would give Genesis a “blocking stake” should it be needed.
Genesis noted that Kupe provides around 50 percent of New Zealand’s LPG. It considers that Kupe is a key asset for the company in its plans to progress its market share of bottled gas.

**Changing energy market**

In Genesis’s annual report, the chief executive commented that “the New Zealand energy market…is facing the same need to reinvent itself to deliver value to customers”. We asked whether that implied that the New Zealand energy market is not customer focused.

The chief executive explained that business models have been developed around an industry in which electrons are produced away from communities. However, modern technology enables local production and gives people the ability to store electricity in their own home. New digital technology influences consumer habits.

Genesis believes that accommodating such changes may require the development of a new business model. We heard that Genesis aims to use the opportunities presented by new technology to create enduring relationships with consumers.

**Customer churn in the energy market**

New Zealand’s electricity market experiences a high rate of customer turnover, known as “churn”, with many consumers switching providers. Genesis reported an average customer switching rate of 20.2 percent for the 2016 financial year.

Genesis states in its annual report that an ongoing need to promote discounted prices in order to replace churning customers drives unnecessary costs to the business and puts these unnecessary costs on consumers. We asked Genesis to tell us more about the costs associated with customer churn.

We heard that paying to attract new customers every time a customer leaves is a cost to the business. Genesis acknowledged that competition is good for the market, but churn should be seen as dissatisfaction, so it aims to reduce it. Genesis told us that it endeavours to turn a passive relationship initiated by churn and discounts into a value-driven relationship with the brand.

**Factors influencing customer choice**

We asked whether Genesis thought the most important defining factor in the industry was price, or whether it was able to differentiate itself based on service and quality.

Genesis said it recognises that being price competitive is important, but believes it would not be the only factor by which consumers choose. It has a goal to become an energy management business, as opposed to just being a supplier.

**Rankine Units at Huntly station**

The Huntly power station comprises two 250MW units (known as the Rankine Units) which use boiler and steam turbine technology, and can use coal and gas to generate electricity. Genesis made a decision to retire the Rankine Units in 2018. However, it was subsequently determined that in the event of scarcity or dry conditions, these units may need to be available. Genesis considers that it is not practicable to rely only on renewable energy, and that New Zealand will need thermal generation to support its energy requirements.
We note that Genesis has entered into commercial agreements to keep the Rankine Units available until 2022. We asked for more detail about the contract period for keeping these units available.

We heard that the arrangement was based on “swaptions”. In this case, it means that a number of companies pay Genesis on a yearly basis in order to obtain energy from the units at a fixed price. Genesis gave the example that, in a dry year, these companies would have a right to a certain amount of energy at a particular price. As a result, they would not be as severely affected if wholesale prices were high.

We asked whether this approach meant the market was working competitively and transparently. Genesis said that small retailers have the ability to buy a swaption, just as the larger retailers (such as Meridian Energy and Contact) have done.

**Schoolgen solar schools programme**

The Schoolgen solar schools programme provides for solar energy and energy-related learning resources in schools. Genesis has been running this programme since 2007. We asked for an update on changes to Schoolgen.

We heard that Genesis continues to support the 92 schools that already have solar panels. However, it has stopped installing solar panels in further schools and will be focusing on developing students’ capabilities around new technologies. Some of us expressed concern that some schools do not feel supported. Genesis assured us that it would look into this.

In response to our additional written questions, Genesis explained that the company is focused on consolidating and evolving the programme online, through the Schoolgen website. It aims to have the programme be a tool for children in schools to understand how energy is produced and consumed, and to be involved in how sustainable energy develops in the future.

**Success of the mixed ownership model**

Genesis Energy was originally a State-owned enterprise, but is now a listed company with a majority Government shareholding. We asked Genesis to comment on how the mixed ownership model helps to drive better performance for shareholders.

The chief executive told us that an advantage of being a listed company is that all decisions that the company makes are heavily scrutinised. This has led the business to focus more on its costs and performance. Genesis wants to be seen by the market as a strong yield business but with growth potential.

The chairman said that all shareholders have to be treated equally and that the pressure on directors in their role of managing investment and making sure it meets market expectations has enhanced Genesis’s performance. The chairman believes that the new discipline of the company has contributed to Genesis’s announcement that it will have a continually improving dividend. We heard that dividends are at the “top tier” of the yield stock available on the New Zealand market.

**Regulation of lines companies**

We heard that the energy market is evolving quickly, and that this presents challenges for regulators in keeping pace with the changes. The chairman questioned whether lines companies are getting involved in areas that could potentially limit customers’ choices
when new energy options become available. We asked the chairman to expand on these comments.

The chairman told us that, because of the current infrastructure, lines companies are monopolies. Genesis is required by law to inform lines companies about certain data. Although it does so willingly, it is concerned about how the data is being used. In this context, Genesis discussed guidelines introduced in Australia that involve ring-fencing of regulated monopolies that want to expand their services to take advantage of opportunities provided by new technology.

Genesis suggested that this committee, and Parliament as a whole, should give thought to whether monopolies are becoming dominant.

**Carbon credits and thermal generation**

We noted that the price of carbon is rising, particularly due to changes in climate policies. We asked Genesis about its strategic thinking regarding the trade-off between maintaining customer returns, and planning long-term for the potential impact of carbon penalties.

Genesis said that the rising price of carbon credits is costly. However, it emphasised that it has balanced means of production, and where possible, it uses a mix of gas and coal. Genesis acknowledged that one of the challenges in New Zealand is keeping energy low-carbon. It said that maintaining reserves of power is important, and there is a threat to the reliability of New Zealand’s energy supply without thermal energy.
Appendix

Committee procedure
We met on 1 December 2016 and 9 February 2017 to consider the annual review of Genesis Energy Limited. We heard evidence from Genesis Energy Limited and received advice from the Office of the Auditor-General.

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

Advice and evidence received
Genesis Energy Limited, Response to written questions
Genesis Energy Limited, Responses to additional written questions
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KiwiRail Holdings Limited and the New Zealand Railways Corporation

 Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of KiwiRail Holdings Limited and the New Zealand Railways Corporation, and recommends that the House take note of its report.

Introduction

KiwiRail Holdings Limited (KiwiRail) is a State-owned enterprise that owns and operates New Zealand’s rail network and the Interislander ferries. It has been working through a multi-year transformation programme to modify its leadership, culture, and structure. The organisation has shifted its focus away from moving trains and ships, toward moving people and freight.

The chair of KiwiRail is Trevor Janes and the chief executive is Peter Reidy.

KiwiRail’s financial sustainability remains a key issue. In 2015/16, it delivered a net loss before tax of $194 million, compared with a loss of $166.5 million the year before. The board recognised $216 million for the impairment of KiwiRail’s assets, and KiwiRail achieved an underlying operating surplus of $75.9 million for the year.

Auditors for the Office of the Auditor-General issued a non-standard audit report, drawing attention to the board’s disclosure in the financial statements that KiwiRail’s ability to continue as a going concern is dependent on continuing support from the Crown as its shareholder. The auditors graded KiwiRail’s management control environment as “good”, and its financial information systems and controls as “very good”.

Financial assistance from the Government

Over the past three years the Government has provided KiwiRail with an average of $200 million a year in financial assistance. Given KiwiRail’s 2015/16 financial loss, and its capital expenditure of about $254 million, we asked if Government assistance would continue to be needed for the foreseeable future.

We heard that about 70 percent of the $254 million spent on capital investment was for the rail network. KiwiRail said its mandate from the Government is to maintain a national rail network; this requires continued investment and maintenance. The organisation said that the standard of the network is determined by the level of investment in it, and that if this were to drop, the network would need to be downgraded, or speeds would need to be lowered. As its intention is to improve its services for both freight and passengers, KiwiRail projects its capital expenditure to be about $170–180 million for each of the next five years, requiring continued Government assistance.

Competition with road transport

We discussed the difference between the Government’s investment in the rail network and its $11 billion investment in Roads of National Significance. As KiwiRail competes with
trucking companies for freight contracts, we asked if the differential in public funding places KiwiRail at a commercial disadvantage.

We heard that KiwiRail has lost volume to trucks on some lines, such as the Northland line, but on other lines, such as Tauranga to Auckland, it has taken volume off trucks. KiwiRail said that any funding rail receives is the decision of the Government. Its role is to deliver reliable freight and passenger services to customers. The organisation supports an integrated land transport strategy that results in the best outcomes for New Zealand.

**Asset management**

We discussed problems KiwiRail has faced with the fitness of its assets, such as the loss of a propeller from the *Aratere* in 2013. We asked what asset planning and management measures KiwiRail has put in place to mitigate the risk of such incidents in the future.

KiwiRail said that previously it focused too much on reactive maintenance rather than planned maintenance. The organisation has invested in a formal asset management programme for its ferries to ensure that maintenance is planned in advance. It has also set up an infrastructure and asset management subcommittee to oversee the maintenance programme. It also intends to apply the programme to its rolling stock.

We asked how much the *Aratere* incident had cost KiwiRail. We heard that KiwiRail reached a confidential settlement with the supplier of the propeller, but that liability for the fault was accepted by both KiwiRail and the supplier. The final cost came to $35 million in lost revenue.

**Decision to phase out electric trains**

In December 2016 KiwiRail decided to phase out the use of electric trains on the North Island main trunk line. We asked how much the decision was influenced by the organisation’s $194 million before tax loss for the year.

KiwiRail said that the decision was a strategic one. By standardising its fleet, KiwiRail will improve productivity and reliability. We heard that it would cost about $4.5 billion for KiwiRail to electrify its entire North Island network, from which it would not see any additional income. The organisation had compared whole-of-life costs for an all-diesel network and a diesel–electric network, and found that it would be 25 percent more beneficial to invest in an all–diesel network. By standardising its fleet, KiwiRail will also simplify maintenance processes.

We asked about the difference in annual maintenance costs between a diesel fleet and an electric fleet. KiwiRail said that the diesel option had 30 percent lower overall costs over the lifetime of the two options. KiwiRail have supplied the committee with a redacted version of the business case where the requested information has been withheld. Some of us think this is not acceptable.

**Difference in travel time**

We asked if its decision took into account any difference in travel time between diesel and electric trains. KiwiRail said that the decision was not based on travel time, but on getting more reliability and efficiency out of the fleet. We heard that the time of departure plays a far bigger part in a train’s timeliness than the time of arrival. Any saving in time would therefore not flow on to customers. KiwiRail said trials they ran show the use of diesel trains between Hamilton and Palmerston North would add between 20 to 40 minutes onto the journey time depending on the weight of the loads.
Cost of carbon

Given that the fleet’s carbon emissions are projected to quadruple, we asked if KiwiRail had considered the cost of carbon in its decision to phase out electric trains. We heard that, per tonne, rail is 66 percent more carbon-efficient than road for transporting freight. KiwiRail’s environmental business case had considered the benefit of improving the reliability of its services, leading to fewer trucks on New Zealand roads. KiwiRail said it did not quantify any benefit of taking traffic off the road, nor did it quantify any additional cost as a result of increased emissions.

Some of us are concerned that the increased cost of an additional 12,000 tonnes of carbon emissions is not accounted for in the business case leading to this decision.

New safety measures

We asked about KiwiRail’s work to improve public safety, alongside the New Zealand Transport Agency (NZTA), the Transport Accident Investigation Commission (TAIC), and other public organisations. We note that KiwiRail is working with those organisations to close out various safety recommendations. We heard that KiwiRail and NZTA have formed an integrated group, with the intention of working with local councils to increase the number of level crossing upgrades, from about 10 per year currently to over 50 per year.

Northport

Some of us are concerned that despite the designation of a corridor between Northport (the only deep-water port with adjacent land development potential) and the main north rail connection, KiwiRail has not pressed ahead with that connection.
Appendix A

Committee procedure

We met on 15 February and 8 March 2017 to consider the annual review of KiwiRail Holdings Limited and the New Zealand Railways Corporation. We heard evidence from KiwiRail and received advice from the Office of the Auditor-General.

Committee members

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

Sue Moroney replaced Grant Robertson for this item of business.

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


KiwiRail Holdings Limited, Responses to committee questions 1–102, 103–142, and 143-158, dated 20 January 2017.

KiwiRail Holdings Limited, Responses to committee questions 159-190, dated 3 March 2017.
Appendix B

Transcript of hearing from 15 February 2017

Members
Alastair Scott (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Tim Macindoe
Sue Moroney
Rt Hon Winston Peters
James Shaw
Stuart Smith
Michael Wood

Witnesses
KiwiRail Holdings Limited
Peter Reidy, Chief Executive
Trevor Janes, Board Chair
Todd Moyle, Group General Manager of Network Services
Roy Sullivan, Group General Manager of Rolling Stock and Asset Services

Chair
We’ve got about an hour with you guys, so if you’d like to give us 10 or 15 minutes, and then we’ll give you some questions. Now, this is recorded. Away you go; over to you.

Janes
I’ll go quite quickly, because I want to hand over to Peter. Mr Chairman, thank you, and good morning to all committee members. I’ve only been in the chair seat at KiwiRail since—

Chair
Sorry to interrupt you. Focus into the mike.

Cosgrove
Just pull it a bit towards you.

Janes
I’ve only been in the chair seat at KiwiRail since the beginning of November, so the period under review has not been on my watch. This morning, I’d like to hand over to Peter Reidy to open with a short summary of the issues at hand, but before I do, I have a few remarks of my own that I think are relevant to proceedings.

Firstly, it would be remiss of me not to highlight to the committee how very impressed I’ve been with the quality of management I’ve encountered in the first months at KiwiRail. It’s a credit to Peter and his team that in the challenging circumstances they currently find themselves in, thanks to the forces of the Kaikōura fault line and the fires in Canterbury, they’re in a far
better position now to recover quickly than they would have been even 2 years ago.

The cost and productivity savings that Peter has driven during his time as chief executive, transforming KiwiRail into a commercially driven, customer-centric organisation has set us up well for speedy and effective recovery from recent events, in both revenue terms and repair of the line.

My second point relates to the decision made just before Christmas, and under my watch, to phase out the use of electric locomotives on the North Island main trunk line. I think this will be a point of discussion today. My background before governance was in the financial sector, primarily as an investment banker and financial analyst. I was, therefore, very interested in reviewing the better business case, which was the result of 2 years of extensive consultation and analysis of the options available. This was never going to be an easy decision, but I can, hand on heart, say that what I have reviewed made absolute sense for New Zealand. Standardising our assets, simplifying the business, and investing where there is growth has been KiwiRail’s strategy for its transformation.

There was an urgent need to improve performance on the network, driving productivity and reliability for our customers by moving to a single fleet, diesel or electric. The cost for electrifying the North Island totally to allow a single fleet is in the vicinity of $4.5 billion. Any shareholder would expect that kind of investment to generate considerable additional revenue. In this case, the billions needed to move to an electric model would not generate a single dollar of additional income. That investment would only make the network as efficient as it is today with diesel locomotives, and it must be remembered that rail is already the most carbon-efficient freight transporter, with a 66 percent saving in carbon emissions over road for every tonne of freight moved.

It was an economically rational decision and the right one for New Zealand, and I want to thank the previous chairman, John Spencer, for his excellent leadership on this decision. I'll now hand over to Peter to complete the introduction.

Reidy  Thank you, Trevor, and good morning to the committee. As Trevor alluded to in his remarks, we’re indeed facing challenging times, but the achievements of the year in review, which we’ll talk about today, have, and will, put us in good stead for not only rebuilding the main north line, caused through to the disruption in the business, but also will put us in good stead for growing the market in the future.

Our core purpose is to help New Zealand grow by moving people and freight. We make it quite clear: we don’t move trains and ships; we move people and freight. And we are moving the business towards more of a customer-based organisation. It’s about improving performance in three areas. One is commercial, one is cultural engagement, and one is customer growth. Our strategy to do this is simply to do three things. One: simplify the business where we can, standardise our asset platform, and invest in our people, particularly our frontline.
KiwiRail takes its promise to help drive the Government’s Business Growth Agenda seriously, so I am pleased to report that of one of the many achievements of the last year, we have seen 11 percent growth in import/export freight. Globally, containerisation is moving around the world, and we’ve seen that in New Zealand as well, in terms of containers moving to and from ports. We also achieved a $27 million productivity savings. We’ve got a number of initiatives in play. We’re on target this year to deliver another $18 million of productivity savings initiatives, particularly in the back office.

One of those examples were we outsourced our IT systems. We’ve also invested, and are investing, in the booming tourism offering, which was up 10 percent last year. And the Interislander has had record revenues. Last year, [Inaudible] revenue was up 9 percent, passengers up 22 percent. I can say last year that the Aratere only had two sailings where it didn’t sail due to mechanical failure, out of 900 sailings. Best performance ever. On-time performance for the ferries now is 98 percent.

I am also very proud, with my team, of the focus on zero harm.

Peters
Just one thing. Regardless of whether you made a 98 percent performance, right—

Reidy
On-time performance.

Chair
Mr Peters, let’s wait for questions. Let’s—

Peters
Yeah, I know, but—

Chair
Save it for afterwards. Mr Reidy, if you’d like to carry on, that’d be good.

Reidy
Excluding weather adjusted.

Peters
Precisely, sir. That’s what I want to hear.

Reidy
Zero harm has improved dramatically. In the last year, we delivered a 39 percent reduction in lost-time injuries. Over the last 2 years, it’s been over a 65 percent performance in terms of reducing lost-time injuries. We are working very closely in the last year with NZTA. And there’s a number of initiatives we’ve got, particularly around level-crossings, to mitigate the risk for New Zealand.

We’re currently in a high period of activity, particularly with the main north line, as it gathers pace, and, as you know, we’re in alliance with NZTA and a number of contractors.

We’re tackling one of the biggest rail rebuild projects in generations, and we’re more than up for that challenge. I have with me today Todd Moyle, who’s on the board of NCTIR, which is the NZTA-KiwiRail alliance. Todd runs our network, and he’ll be talking about some of the earthquake issues today.

Delivering time-sensitive freight in the South Island within 48 hours is a critical part of our service promise, and when their line went down, it obviously emphasises the need for a resilient rail transport corridor. It also emphasises, we believe, the importance of rail beyond the balance sheet.
While we focus very strongly on improving our commercial performance, it’s also important to understand that we believe rail is part of a land transport system, and it’s critical for the efficient operation of roads. It’s not about rail or roads; we do work together.

We take more than a million trucks off the road each year, which reduces diesel consumption and emissions, and eases congestion. There are also the financial benefits we deliver to communities such as Greymouth through our tourist venture Scenic Journeys, taking over 200,000 tourists to that part of the world. And the partnership with ports and local councils for the efficient movement of freight is growing and, as Trevor said, the 66 percent emissions savings for every tonne of freight moved by rail is recognised.

There is, and will be, need for investment in the below-rail parts of our business. We operate an integrated rail model in New Zealand very similar to smaller countries around the world, and very similar to many rail operations, particularly Sydney Transport, where you operate below rail and above rail together.

The above-rail business may be self-sustaining, as KiwiRail is, but the network, like the road, will require public investment. To make it the best use of that investment, to be a trusted Kiwi-owned logistics provider growing New Zealand is a vision we live by.

Finally, I’d like to introduce Todd, which I have. And with me in the room today I have Roy Sullivan. Roy Sullivan is from the UK. Roy is a world-class expert in the maintenance and manufacture of rail fleets. And we also have Helen Rogers, who’s our deputy CFO. We hope to be able to answer your questions, and if you require further clarification, we’ll quickly respond in writing.

Chair  Great. Thanks, Mr Reidy. We’ve got a bunch of MPs already lined up for questions. The first one is going to come from Sue.

Moroney  Thank you very much for your presentation. How much of the decision to move away from electric trains to diesel was driven by your before-tax loss this year of $194 million and your declining operating surplus in the year that we are considering?

Reidy  The decision to move to standardise our fleet was a strategic decision. It was first and foremost driven around service reliability, and as we get better service reliability in the transport market, we become more competitive, because we do operate with the trucks. We looked a whole-of-life costing over the business, and the business case that we certainly put up to our board indicated a 25 percent beneficial investment than investing in part of our railway being electric, so the decision had nothing to do with any losses we might have been making.

Moroney  But was it your assessment that new diesel locos were going to be more reliable than your electric locos?

Reidy  No, it was a whole-system approach. So this was not an argument about diesel versus electric, because round the world—
Moroney: Well, it is, actually.

Reidy: No, it’s not, because round the world, there are many markets that operate all electrics. There are many markets, like Australia, that operate freight for diesel. So this was a whole-of-life decision around—

Moroney: You just said before, though, Mr Reidy—with due respect, you said before that the decision was around service reliability.

Reidy: Correct.

Moroney: So was it your assessment that new diesels were more reliable than new electric locos?

Reidy: No, our assessment was that by standardising the fleet, we were going to be able to get improvements right across the fleet, we’d have simplified maintenance processes—we know the fleet, and we weren’t going to run a railway within a railway, which is one of the best reasons we could come up with as to why we needed to standardise.

Moroney: So if it was the most economically rational decision, as you said, why have you decided to keep the line electrified?

Reidy: We have said this is not a forever decision. Electrifying the line is a $2 million to $3 million cost. We did it for a number of reasons. One was theft. If we de-energised that line, there would be vandalism and theft. And we didn’t think that was appropriate. Secondly, we have said this is the decision for KiwiRail right now in terms of the way we’re operating the business. We have left the infrastructure in place, and a large part of the infrastructure actually is to do with Transpower, in terms of their energy systems, etc. So it was the most pragmatic approach to leave that in place right now. That may be reviewed in the future.

Moroney: So you think in the future you might move to electric locos?

Reidy: That is not our decision right now, but we have left the infrastructure in place in case future generations want that option. But at this stage, that will be reviewed in 3 to 4 years.

Moroney: And what’s the cost of keeping the line electrified?

Reidy: It’s $2 million to $3 million, but that cost—

Moroney: Every year?

Reidy: Correct. But that cost will reduce substantially, and we’re in discussions with Transpower right now in terms of what we do with some of their generation systems.

Moroney: Did you have a look at the travel-time difference, because my understanding is that it will take considerably longer for diesel trains to pull freight along that part of the main trunk line than it does with electric locos. So what is the time differentiation, and how did you build that into your business case?

Reidy: We’ve done many trials. We’ve done a trial where currently we operate electrics between Hamilton and Palmerston, and in previous days, they used to change the locos at the railway station rather than at terminal. We’ve
been through these arguments before. We trialled diesel locos. We ran diesel locos direct for 3 or 4 months. There was some saving in time, but that wasn’t a big decision. This is not about time. And they’re not slower.

Moroney: How much was the saving in time?

Reidy: It depends upon the load. It depends upon whether you’ve got a 2,000 tonne train with [inaudible] or it depends on whether you’ve got a lighter train. Some trials were 20 minutes faster; other trials were about 35 to 40. But this was not a time thing. We didn’t come out and say this is going to be faster. This is about more reliability, more efficiency for our customers.

Moroney: So time of travel is not to do with efficiency?

Reidy: Time of travel—this is not about saying we’re going to be faster. That was not a decision in the business case.

Moroney: But I just put it to you that the movement of freight and the time it takes to move—surely that’s to do with efficiency.

Reidy: The time it takes to move freight—absolutely. But the big indicator of time is the time of departure, which has nothing to do with your locos. It has everything to do with your loading, stacking, containerisation, your customers’ being organised. So if you are departing Westfield 75 percent of the time on time, you will always be late. Once you leave late, you will be late.

Moroney: So you’re telling me that you’ve built a business case up around, on this issue, that doesn’t take into account the longer travel time of the diesel engines that you’re about to invest in?

Reidy: No, there is no—what we’re saying is, in the business case—is that in the trials we did, there is delay in having to uncouple electric and de-couple electric, and any trials we did, if we had any savings of time in that, that’s not a time we give to our customers; that’s a time in our schedule, on our roster, that we will use for contingency. But any savings we may or may not get is not something we would deliver to customers. We might keep it in our train planning schedule.

Moroney: And the diesel engines—the diesel locos—cost around about $21 million more a year in maintenance costs. Now, over the lifetime, because you said you looked at whole of lifetime, that’s around $630 million. Surely that had an impact on the business case if you looked over the lifetime of these engines.

Reidy: Sorry, $21 million related to what?

Moroney: That is the difference in the cost of the maintenance—the operation and maintenance costs for diesel versus the electric engines.

Reidy: Well, that’s—I’m happy to bring Roy up and we can go into the technicalities of maintaining electrics versus diesel, but over the whole of life—

Moroney: Because I understand you did actually quantify that. You quantified the difference.
Reidy  Over the whole of life, the big upfront cost here is maintenance and capital upfront cost, right? What I can say is, in the business case that we put up, there was a 25 percent improvement over and above having some locos that were electric or not electric. What I can say now is that when we did the business case, we assumed that we would need 8 DL locos—diesel—to replace electrics. Right now we think the business case will say about three. So right now, as of yesterday, that business case is probably 35 to 37 percent better than the case we looked at of buying electrics or upgrading the electric system. So as Roy’s optimising the system, making locos available, we think this case is getting stronger in terms of the efficient business case for the market. But Roy, happy if you want to go and talk about electric.

Sullivan  Just a little bit of background for myself. I’ve been with KiwiRail 9 months. Prior to that, I worked for Downer Rail for 5 years as head of a recovery plan for Waratah Trains that were sourced out of China, for Sydney, and later on, then I covered over working across the fleets for locos. Prior to that I worked for Alstom for 25 years. So I’ve been fortunate to work around a lot of issues with mechanical parts and electrical parts.

Chair  Sorry to interrupt. Have you got a specific question for him?

Moroney  Yes, so the question is: what was the annual difference—because I believe you would have looked at this in your business case—of the difference between maintaining the diesel loco fleet versus electric locos?

Sullivan  What we looked at was the whole-of-life process, which is procuring new locos, and the installation of new locos, and testing commissioning. That’s why Peter talks about the savings.

Moroney  Yeah, but I specifically want to know about the maintenance—the difference in the maintenance and operating costs, on an annual basis, between your proposed electric fleet and your diesel fleet.

Sullivan  On the moving electric locos, less moving parts, whereas a mechanical one has more moving parts, but we’d have to go into your actual numbers to see where you’re referencing that, because we maintain at the moment indifferently in our mechanical locos. That’s what Peter’s talking to.

Moroney  Well, perhaps, look, if you haven’t got the figure, can you provide it to the committee? That would be wonderful.

Reidy  What we can say: if your numbers are correct, the business case was still 25 percent more favourable to diesel, and today it’s 35 to 37 percent more favourable. But we’ll come back with those numbers.

Moroney  Did you build in the cost of increased carbon emissions, because the carbon emissions, under your own figures, quadruple?

Reidy  There’s a couple of facts there. Firstly, we looked at the commercial case. We looked at the environmental impact. There’s 80 million tonnes of carbon emission in New Zealand. Rail is 0.16 percent. If we go all diesel, it does to 0.162 percent.
But this is the business case about your decision to go from electric to
diesel, with due respect. This is not to do with the overall country’s carbon
emissions. I’m talking about your carbon emissions.

Your question said: does this take into account carbon emissions?

Yes.

And the case was very strong that said as we improve reliability, we have a
very competitive chance of taking more freight from road to rail.

With due respect, Mr Reidy, the question I’m asking you is about your
change from diesel to electric locos.

Yes.

You’ve told us—you’ve told us through answers to questions from this
committee—that at the moment, for that stretch of the main trunk line, it’s
4,500 tonnes of carbon emissions. That’s going to go up to 15—it’s going
to go up by 15,000 tonnes—under this proposal. You’ve told us that
information. So that’s a quadrupling.

Yes, and that’s the gross figure. The net figure, because not all electricity in
New Zealand comes from renewables—but it’s 12,000 net tonnes. That is
the equivalent of one extra train from the Port of Tauranga to Auckland in
a day.

In cost terms.

In terms of emissions, right? So we have already taken into account—

Have you costed that into the business model, because, obviously, when
emissions increase, then the cost of diesel increases to go with that? Have
you factored that in?

Yes. We did not—in the environmental business case, we looked at the
benefit that we were going to provide New Zealand by taking trucks off the
road. We did not take into account any additional cost. But, at the same
time, we did not take into account any benefit by us taking trucks off the
road.

So your equation is factoring in non-truck movements now—into your
outcome? You claim the benefits of taking trucks off the road. That’s in
your equation of what value you are in terms of the carbon footprint
argument. Is that right?

The argument is that as we become more reliable and competitive, we’re
able to invert traffic from road to rail, but that has a national impact of 66
percent for New Zealand. It is significant.

It is, but Sue’s question was about the cost of carbon, which has gone from
$2 a tonne to $20—well, over $18 a tonne—in the space of 12 months, and
is anticipated to rise even more steeply with an expectation that by 2030 it
will be around $50 to $100 a tonne. So if you’re going to add 15,000 tonnes’
worth of emissions, then you’re paying 15,000 times $20 at today’s rate,
with that cost anticipated to rise. So is that cost, in cash terms to your business—was that part of the business case?

Reidy
No, that wasn’t part of the business case.

Moroney
It seems like a major oversight—

Reidy
It’s not.

Moroney
—particularly if you’re taking into your business case, as Mr Peters has pointed out—

Reidy
15,000 times 20 is not a big number.

Moroney
As Mr Peters has pointed out, in your business case, if you had taken into account a reduction that’s not to do with your business, of moving trucks off the road, but you haven’t taken into account a direct cost that this proposal actually brings about from these carbon emissions, how can that be valid?

Reidy
That number is not material. The materiality for this whole business case was the maintenance cost and the capital amount up front. So it’s not material—happy to come back to you with the numbers.

Moroney
Well, it’s not a whole-of-cost—

Shaw
But you haven’t included all the costs.

Peters
When you said: “We weren’t going to run a railway within a railway.”, you meant you weren’t going to run both, electric and diesel?

Reidy
It’s inefficient for us to—

Peters
Is that what you meant by that statement?

Reidy
Correct. On origin to destination—

Peters
What’s a railway within railway? How do I reconcile that with your statement if you’re running both?

Reidy
So if you’re a container, you travel with us by diesel train to Hamilton. We then put you on an electric loco and it goes to Palmerston, and then we transfer you to a diesel train and you go to Wellington. So it’s like you travelling to Wellington with Air New Zealand and swapping planes in Hamilton and Palmerston. We run two different modes of energy source to take a container from Auckland to Wellington, and that means double inventory, that means different maintenance capability, that means we double up in a lot of areas.

Chair
OK, we’ll move on. We’re going to go for a different line of questioning from Stuart Smith.

Smith
Thank you, Mr Reidy. After the Kaikōura earthquake, we heard about the insurance on the line that would help fund the rebuild of the line. I’m interested in what you insure, specifically in the lines themselves, and what’s the quantum of that payout likely to be? And further to it—so it has three parts—there’s a $2 billion rebuild, so if the Government’s already said it’s
going to step up and pay for that, what happens to that insurance money that comes from the payout on that road—on that rail corridor?

Reidy Maybe I'll refer to Todd.

Moyle So there’s a number of elements that are insured, so we insure most of it. There’s a couple of subclauses in there of components that aren’t insured, and the key one being an element around debris. So we have to work through the legalities of that with our insurer at the moment, and it is commercially sensitive so we won’t want to go into the total amount. But there will be a proportion of those repairs that is covered by insurance for the KiwiRail element of that.

Smith So can you give me a specific proportion—an estimate? Is it going to be half?

Moyle I think because of those subclauses and the debate that has to go on around that, I can’t give you a figure of what percentage will and won’t be, until we’ve worked through the details. I think the other key element at the moment is that we don’t have the design complete. At the moment, what we’ve gone through is we’ve given estimates based on the damage assessment, and then we’re now working through with the NCTIR alliance on the concept design—so where the roots are going. So that will dictate whether we have to move debris, or whether we’re building out from some of those cliff faces. So we’re very close to the point of being able to determine where that alignment goes, and then that will then give us a clearer indication of where those subclauses within the insurance policy do apply and don’t. It would be remiss of me, I think, at the moment, to stick a finger in the air and say where does that land.

Smith So are the bridges and culverts covered?

Moyle Correct.

Smith For full replacement, is it?

Moyle They’re covered for replacement, correct.

Smith Bridges, and what about tunnels?

Moyle Tunnels aren’t covered.

Smith So there’s two damaged tunnels, isn’t it?

Moyle Correct. The largest proportion—if you look at that Kaikōura earthquake, the largest proportion for both KiwiRail and NZTA is the remediation of
the slips. So in that overall sum of money, that’s where the bulk of it will be spent, and that’s where the subclause around debris comes in.

Chair  So are you covered for debris?

Moyle  It depends on—because of the sensitivities, I don’t want to go into the detail of it.

Chair  OK. So the Manawatū Gorge had a slip. That was debris. Were you covered for that event?

Moyle  It came underneath out—the total cost to repair that came underneath our deductible, so excess, so that didn’t—

Chair  So what is your excess?

Moyle  The excess is $5 million.

Smith  Are you going to go over the excess?

Moyle  I think we will.

Smith  That’s not unsure—or are you—

Moyle  No, we’ll definitely go over the excess.

Cosgrove  I am just interested in your comments about the incidents that have occurred with some of your assets—ferries and others—over the last few years. Our audit advisers have noted that you have asset planning under way. I would be interested to know some detail around the asset planning and maintenance schedule given that, to be fair, over the last few years, you’d have to agree, especially with the ferry service, there’s been a litany of problems. Because it just surprises me, some of the language that our advisers are using in terms of, you know, things remain a major challenge and the asset planning hasn’t been completed to the standard that you would require. So what assurances—give us some detail about how you’re dealing with that, compared to other industries—say, airlines—that haven’t had the problems you guys have.

Reidy  So, about 18 months ago, we invested in some asset management capability. We’ve got a—

Cosgrove  18 months ago? What did you do before then? How did you manage your assets?

Reidy  Well, I’ve only been in the role 2.5 years; we had an asset management register. We had a series of initiatives that were in play, but the percentage of reactive maintenance to planned maintenance was too high. So what we’ve done is we’ve invested in capability and we’ve invested in a very formal programme piloted on to our ferries to make sure that we’ve got a high percentage of planned maintenance versus reactive maintenance.

So the first thing you do is you go through and you have a look at your asset intensity criticality. So we’ve gone through all the ferries and looked at which assets are absolutely critical that will be showstoppers and what’s the maintenance programme around that. It’s been very active—we’ve got an expert out of Australia, we meet every 3 months, and we’ve got intensive
asset management schedules. We have, last year and the year before, had an infrastructure and asset management board subcommittee, and those asset management plans would come up at that subcommittee.

We’ve invested and spent more money, and we’re lifting the capability of the people to make sure the level of plan maintenance—to the extent now that Kaiarahi was meant to go to dry dock this year, and we got word last week that that won’t now need to go to dry dock for another year. So that’s a signal that our planned maintenance is working.

When the Aratere went to dry dock recently—we take the asset management plan, we plan out the dry dock, and this year the dry dock went very well to plan. Normally when you go to dry dock, you can be surprised, but our asset management plan said “No, no, we know what assets need to be maintained, we know what we’ve done.”, and the dry dock just confirmed that.

So that’s where we’re at and we are taking that asset management plan through to the rolling stock, so Roy’s an expert in that, and Todd’s taking the rolling stock—the maintenance programming through to the network side.

Cosgrove Can I just ask you—I know it’s slightly historic—about the propeller falling off the ship: what was the end result of that in terms of liability? Was that deemed to be a manufacturer’s difficulty, and what financial impost was put upon KiwiRail?

Reidy I’ll pass you over to Todd, because we set up a full forensic investigation into that, and Todd let that.

Moyle I think, in terms of the full impact, there was $35 million that we’ve reported on a number of occasions, and that was the financial impact of that.

Cosgrove To KiwiRail?

Moyle To KiwiRail, correct. And—sorry, what was the first part of your question?

Cosgrove What was the outcome? Whose liability was it? Was it a manufacturing problem or a maintenance problem?

Moyle KiwiRail reached a confidential settlement with the supplier over that—around the supply of the propeller. When we went through, you could see there was clear evidence—on that starboard side—of a high degree of cavitation that wasn’t evident on the port side, which demonstrated there
was an issue there. So our forensic investigation determined there was a rotating force that created that propeller to fall off.

Cosgrove  So in essence—I’m not a nautical engineer—but whose fault was it?

Moyle  There was a number of factors that came into it, and I think that the finding in our report was that one of the overarching drivers was the result of that uni axle—

Cosgrove  So, sorry, in English, whose fault was it? Was there joint liability on both sides?

Moyle  There was joint liability.

Cosgrove  So bad manufacturing, let's say; from the KiwiRail side, what? Inappropriate use of bad maintenance?

Moyle  We’ve got a crew—we’re going to correct our fitment process as well for those propellers, and the code requirement that was set across the industry for fitment of propellers was also updated as a result the investigation.

Cosgrove  I’m not delving into the detail, but, as I said to some of my colleagues, comparing KiwiRail’s asset management maintenance programme—OK, slightly historic—to, say, Air New Zealand, they are comparable. A different order of magnitude, I grant you, but there are generic management processes you can put in place—and as a result of, you say, presumably bad manufacture but lack of maintenance and appropriate activity—whatever—on the KiwiRail side, the company’s up for $35 million. So what’s in place now to stop that happening again, and can I also ask you, without breaching the confidentiality, presumably your contracts are a lot more robust in terms of manufacturing requirements than they were historically given what happened—because you’re up the gazoo for $35 million.

Reidy  Just a couple of points on that: firstly, there is a difference with airlines to us. Firstly—

Cosgrove  Yes, but I’m talking conceptually about maintaining assets. I’m not talking about the nuts and bolts.

Reidy  Just let me explain, because it is quite different. So the *Aratere* runs 19 hours a day. We do hot maintenance. So if you travel on the *Aratere* and you go downstairs, the guys are maintaining it.

Cosgrove  They’re tightening the bolts?

Reidy  Well, no, they are doing serious maintenance because they have the hours. Air New Zealand can take their planes in at 10 at night and do maintenance till 4 am. You cannot do that with the ships. So we are running the *Aratere*—that is the workhorse. We do not have the ability to take it out 3 days and have the luxury of doing the maintenance. That is quite a big difference.

Secondly, in terms of the asset management planning systems we’ve got, we have invested a lot in that. We’ve recruited some serious leaders, particularly Roy on the rolling stock. And the two areas of asset management planning that will stop [Inaudible] business are the theories and the rolling stock. So
we’re invested in that. We’ve got competency there. We’re putting more money into it. And I think the on-time performance and reliability of the theories in the last 18 months—I think we’re getting some runs on the board with that.

Cosgrove  Your point about airlines might be partly valid, but if I could phrase it the other way: look at your competitors. They haven’t had the same difficulties. And one just wonders why, and we just sort of want some reassurance that you’re on top of these things.

Reidy  Yes, sure. I’ll clarify that, actually—that Bluebridge, when they have poor performance, you don’t hear about it. We know the on-time performance of Bluebridge is less than ours. So when the Bluebridge is stuck out in the harbour, it doesn’t get the notice we do. But we’re very comfortable with our performance.

Audit New Zealand has done a review of our asset management plan. They confirmed to us last time that we’re making good progress. They want to see more progress. We’re investing in that. So I think it’s noted in the Audit New Zealand reports that we have invested in that area and taken that seriously.

Cosgrove  So is their PR better than yours?

Chair  Well, before we criticise anyone’s competition—

Cosgrove  I’m not criticising. I’m trying to make—

Chair  Well, for Mr Reidy’s benefit, if you’re going to talk about the competition, they will be invited back to comment.

Reidy  Sure, but I think that if you have a look at our reliability, in terms of passenger growth, in terms of we measure our scheduled sailings versus to actual sailings, it’s very strong. In fact, it’s significantly higher than airlines. If you look at airlines, they’re down in the mid-seventies, 75 percent. So we are comfortable that we’re on track. There’s a lot of progress we have to make. There’s a lot of progress we have made. Management invested in that area, and the board have provided an oversight to that.

Chair  All right. We’ll go to Mr Peters, then Mr Shaw.

Peters  Just get this Aratere financial loss clear. As a direct consequence of what happened to the Aratere, did you lose $35 million?

Moyle  That’s correct, and that’s in lost revenue at the time.

Peters  All right. What are the costs to stretch the Aratere by 30 metres?

Moyle  Sorry?

Peters  What did it cost to stretch the Aratere?

Moyle  Look, I don’t know.

Peters  Well, look—hang on. Don’t come up here. You are from KiwiRail. This is a serious issue that’s been in the media over and over again. And don’t tell me you don’t know. What was the cost of the Aratere—you took it up to Singapore—all up, to put it back in the water here, before it failed? What
was the cost? No, no, what was the cost when you did that extension that led to the problem eventually, because I’ve got to factor that into an addition to the $35 million. And then I’ll know just what a dumb decision that was. So could you tell me what the cost of the extension of the *Aratere* was, and its cost of getting it back on to the water in New Zealand?

Reidy: Mr Peters, we will come back with that. We’ve been here 3 years, in this organisation, and each year [*Inaudible*]. We’ll get you those figures.

Peters: Sorry, gentlemen, that does not cut it. You’re up in front of a committee, and you could have fully expected you were going to be asked that question, because it’s current, isn’t it?

Reidy: No, it’s not.

Peters: Oh, yes, it is.

Reidy: The stretching the *Aratere*, if you compare the performance—

Peters: No, let me tell you why it’s current. It’s current because he told me that you had a confidential arrangement about it being fixed up. That’s what you said. Now, the only reason why you would be pleading a confidential arrangement is because you would have accepted legally some liability if the extension didn’t work. Otherwise it had to be all through their account? Hadn’t it?

Reidy: Mr Peters, the settlement we talked about was the propeller, with Wärtsilä, the propeller manufacturer. It wasn’t related to the stretching of the *Aratere*.

Peters: Or the broken shaft?

Reidy: The broken shaft was related to the propeller failure.

Peters: Nothing’s related to the—

Reidy: That was the settlement.

Peters: Yes, OK. Well, now I ask you then: why would you be pleading secrecy and admit that a part of the cost was to your account when you got the better
off thing. Usually, if the product’s defective, it’s all to the supplier’s account—not the buyer’s. Explain that to me.

Reidy Firstly, the forensic investigation—and it was conducted by external engineers—said there was no causal link to the stretching. I just want to make that point very clear.

Peters Who said that?

Reidy We had independent engineers.

Peters Who were they?

Reidy That was Aurecon. So that’s the first point. The second point—

Peters Was this the first time you’ve ever employed Aurecon?

Reidy No—

Peters You’ve employed them a number of times before?

Reidy [Inaudible] and other—

Peters Well, can I have a report of how many times you’ve employed them in the last 15 years, please?

Reidy The second point—the commercial settlement—was to do with, yes, the failure and the propeller manufacturer, and the commercial settlement under the claim, to take it to court, was a very low level. So it wasn’t worth
us going to court on this issue. We settled commercially outside, and we got what we believe was the full recovery if we’d had to replace the propeller.

Peters Can I ask you this question: you said that you take a million trucks off the road each year.

Reidy Over a million—1.2

Peters OK—1.2. How many are taken off the Dargaville to Whangarei road?

Reidy Ah, I don’t have that number in front of me.

Peters Well, how many are taken off the north of Kauri, Otiria, and onwards to Okaihau main road?

Reidy When we have the logging contract—and you’ll be referring to that—that was equivalent to about 40 trucks a day.

Peters No, I’m asking you now.

Reidy Now? The Northland line, you’re talking about, to Otira? You know there’s no freight on that line.

Peters No, it’s closed?

Reidy No, it’s not closed, because Marusumi, the forestry company, decided not to renew their contracts. So that line is still open, but if there’s any freight there, or any customers wanting to use—

Peters But they would not accept the contract because you were requiring them to fix up the [Inaudible] connection all by themselves.

Reidy No, the price per tonne, which is commercial, was very, very similar to a road cost per tonne. They decided not to pay that price, and they decided to go back to road.

Peters So you’re saying that nothing changed at all with your contract with them, but they just decided to stop it? You didn’t make any additional—

Reidy No, we increased the price.

Peters Precisely. That’s my point. So how many trucks have you taken off the Dargaville to Whangarei line and north of Kauri line? The answer is none at the moment.

Reidy Correct, because there’s no freight on that line.

Peters So when Ministers are asked questions in the House about KiwiRail, do you get called up to supply the answer?

Reidy We will get questions through the House that come back to us, and we will respond to them.

Peters So you believe a line is open when no trains run on it.

Reidy The line, if there’s demand there, then we will put that demand on that line.

Peters So you’ve got a rail line running, then, in your view.

Reidy We have a track—we have track. We don’t have rolling stock on it, but we have not pulled the track up. The track operates.
Peters: With the greatest respect, if you’re not putting a train on a track, what would the track’s purpose be?

Reidy: If the customer wants to give us, and commercially agree to, the rate, we will put a train on.

Peters: Well, can you explain this then: what is the lowest speed that the trains are going between Auckland and Whangarei? How many times do they get down to those lowest speeds?

Reidy: We’re currently running one train a day, Auckland to Whangarei. We’ve got the same volume. We’ve consolidated the volume. We have speed restrictions on those lines. Todd, you’d know that.

Moyle: They vary. I think the lowest speeds get down to 25 kilometres an hour at certain sections. I don’t know the exact proportion of how much of it is under the 25 kilometres restriction.

Peters: Why would they be under that restriction?

Moyle: It’s a mitigation to ensure safe operation of those services.

Peters: No, that’s not a satisfactory answer, with the greatest respect. I mean, that’s bureaucrat speak. I want to know why would you be down—and it’s much lower than 25 kilometres according to my evidence, and that’s from some
people who work on the railways, and countless times. Why would that be the case? It wasn’t that way 20 years ago.

Moyle If we find a fault on that section of the line, then we need to restrict the speeds there to ensure that those services are travelling safely on the route.

Peters So you’re not going to fix the fault?

Moyle We get round to fixing them. So we prioritise them and put them into a work bank that we can do as efficiently and effectively as we can.

Peters Well, this has been going on for a long time. Have you not got around to it?

Moyle We’ve got—the investment profile that we’ve got for that line with the—is targeted to the volume that goes through there, and so the teams are targeted to go and deliver to removing faults where it’s needed.

Peters Well, when was the last time you did that up in the north of Whangarei—

Moyle We’ve got three gangs, or work teams, that are based between Auckland and Whangarei, that work through those faults. And we’ve got a structures team and a signals team based up there as well.

Peters Well, what was your work programme to fix the problem, because you’ve still got it? I mean, the time from Whangarei to Auckland is far greater than it used to be. It’s 2017. When are you going to fix it?

Moyle So we’ve got—so we run that service based on the hourly availability and that, through there. So we have targeted our investment into that line for operating that service as it’s required.

Chair All right, I think you’ve already answered that question. Next question—Mr Shaw.

Shaw Thanks, Mr Chair. And thanks for your presentation. Just to come back to the moving towards diesel—when you were making that decision, did you put a business case either to the Minister for Transport, his ministry, or Treasury to request funding to complete electrification?

Reidy No, and the reason for that was twofold. One, as an SOE, we look at it from a commercial perspective, and the business case was, firstly and foremost, around service reliability and how do we standardise our assets and simplify the business. Secondly, if we had to electrify that, we know it’s about a billion dollars. If you take a whack of 8 percent, we would have had to increase freight rates circa 20 percent and above. We’d be uncompetitive in doing that in today’s market.

Shaw So you had, essentially, an internal business case, that it wasn’t worth it, so you didn’t put that forward to—

Reidy We did not put a business case forward to Ministers on electrifying the main trunk line.

Shaw Because that would have solved the simplification problem if that had been done, if you took the—

Reidy It would have made us uncompetitive, and our belief—we wouldn’t have had an extra dollar of revenue by doing that. We operate in a very
competitive market, but getting the reliability up to 90 percent, which we have achieved by standardising on a diesel platform, basically, was pretty superior in the business case.

Shaw Have you been instructed by either the Minister or the ministry or Treasury not to put forward business cases or to request funding for electrification?

Reidy No.

Shaw Just a question about whether you’re—I presume that you benchmark internationally. Do you know of any other country in the world that’s de-electrifying and moving towards 100 percent diesel?

Reidy Roy will answer that. What we do know if that there’s no—and we had WorleyParsons and consultants that deal with us. We know there’s no other freight network that has two modes of power, origin-destination. Queensland Rail did on their coal route, and they took electrics off and put it on to diesel. That was about 5 or 6 years ago. Roy do you know of any other—

Sullivan Yeah, there’s been a couple in America that’s changed from electrical units to diesel, and the same in the UK—they’ve taken quite a few of their electric locos out and returned to diesel. As Peter said earlier, the majority of Australia work through diesels as well.

Moroney Can I ask a question about why, on the day when you announced the decision, KiwiRail was quoting that to electrify that part of the main trunk line it would cost $1 billion, and you’ve now come along to the committee today inflating that to $4.5 billion—sorry $1 billion versus $1.5 billion.

Sullivan One’s just the main trunk line. The rest is the rest of the network.

Moroney Why would you need to do that?

Reidy Because a large part of the volume is Port of Tauranga, Metro train from Tauranga to Auckland; Fonterra volume from Pahiatua, and the spurs, etc. So Port of Tauranga cannot take their trains Tauranga to the main trunk line, and then you’d have to take it from diesel to electric. You’d be running a railway within a railway, again. You either do the whole network, including the regional growth feeder lines, or you don’t.

Moroney So does that include the South Island, or just the North Island?

Reidy No, just North Island.

Bayly I just want to turn towards the generous financial assistance the Government provides to you. There are a couple of little areas on that. So, roughly, the Government provides about $200 million of financial support a year, is that right?

Reidy In the last 2 years, yes. The last three.

Peters If you didn’t know the answer, why do you call it generous?

Bayly In 2016-17 you got a commitment of $26 million in there. So if you look at the profit—or the loss before tax this year, $194 million, what’s the cash
element of that after you’ve removed depreciation and amortisation? How much are you burning at an operational level?

Reidy  As you know we operate an integrated network, so the business does an EBITDA—last year we did an EBITDA of $86 million, and cash was about $80 million. The impairment is obviously on the network, and that’s where you get the major loss.

Bayly  No, I understand that. So you’re saying, from an operating perspective, even though you reported a $194 million loss, at a cash level you’ve got free cash flow of about $80 million.

Reidy  Correct, and above-rail includes all of our property and Interislander and ferry. Above-rail is neutral to positive cash flow.

Bayly  So we take $80 million positive, on the other side, your CAPEX, I saw, last year was $258 million, and your capital expenditure over the last few years would roughly average about $250 million, roughly. Is that correct? What I’m trying to understand is the requirement for Government to keep putting money into your business. So you are saying, at an operational level, you’re generating $80 million in cash, but you’ve still got this big capital spend—most of that underground, as I understand.

Reidy  Correct—70 percent of our capital is on the network. Largely, part of that is structures, tunnels, bridges, etc. And in the last couple of years—so of that $250 million, about $160 million to $170 million is in the network, and about $50 million would be on the above rail.

Bayly  So, at what point do we see, particularly the below-ground investment, decreasing, because, presumably, you’re not going to keep rolling out capital spend of $250 million in perpetuity?

Reidy  No, well, our planned assumptions are that the Government’s asked for a national network—to run a national network, and that’s what we’re continuing to do. So, the network, just like a road, needs continued investment, and as we go forward, we’ve got two options. We can either downgrade or slow down some of the speeds on the network through speed restrictions, which is quite common. You would do that for freight that’s not time sensitive. On other parts of the network, like domestic freight, you want to speed it up like we have done in the last 6 months between Auckland and Hamilton. We’ve taken about 40 minutes out of—increased 40 minutes by reducing speed restrictions. So there’s an amount of capital you can apply to the network; it depends upon what service standard you want to give your customers.

Bayly  What’s your projection of the next 5 years? Are you going to be at $250 million for every year for the next five?

Reidy  Our projection, and certainly the direction from the board, is that we need a resilient, safe network. We need to make sure we’re investing in areas of safety that probably wasn’t here 3 or 4 years ago, like fires in tunnels and
fuel-suppressed locos. So we believe that the capital for our network is going to be at about $170 to $180 million, at least for the next 4 or 5 years.

Bayly
So you do see it coming off a bit. And what about your above-ground—presumably things like locos and stuff and your rolling stock investment? Are you going to still keep—presumably, you’ll get to a point on that?

Reidy
Correct. Well, as we standardise the fleet—so, for example, we’re getting to the end now shortly where the next series of DL locos that come in—we’ll have a standardised fleet in the North Island. The next fleet to deal with is the South Island. They’re about a 50-year-old fleet, and we’ll look to invest in the fleet there. Our number of locos will come down. It will come down from about 180 to about 130, but we’ll invest in shunts, which are the sort of powerhouse, short movement areas. But we certainly believe we’ll have less locos, we’ll have a standardised fleet, and in the next 4 to 5 years, that’s the big investment that Roy’s driving is in the rolling stock, lifting the age up, and then as you get past that, you’ll start to see that capital investment reduce.

Shaw
Andrew referred to the generous financial support that the Government provides to the network—$200 million a year—and I just wanted to compare that to the generous financial support the Government gives to the roading network, you know, if you compare it to say the $11 billion investment in roads of national significance, which are your direct competitor, and you said before that you were losing contracts off the rail network to go on to the roading network and that you’re in a very competitive environment. I just want to get a sense from you about the extent to which the differential in public funding for roads versus rail places you at a commercial disadvantage versus road-based competitors for your business.

Reidy
Well, look, any funding on the rail is a Government decision. That’s not our decision, and our job is to improve the commercial performance of the business, and we’ll continue to do that. So we don’t have any comment on whether the funding for road makes us uncompetitive or not.

Shaw
Hang on, but how can you say that—if you’re losing business to trucks and direct competition—that the level of public subsidy that your mode of transport receives versus another one doesn’t affect your business? I mean, it sounds like it directly affects your business.

Reidy
On some corridors, we’ve lost volume to truck—like Northland. Other corridors, we’ve actually taken volume off, like Tauranga to Auckland. Look, our job is to deliver a reliable freight service and we can carry passengers. That’s what we’re focused on. It’s the Government’s decision
to—whatever the Government of the day is—in terms of the investment they want to put into the critical infrastructure.

Shaw And you have no opinion about the economic impact on your business?

Reidy Not today.

Peters [Inaudible] asking whether you believe in the three tiers of transport—maritime, rail, and road—because you really can’t say can you?

Reidy I believe—well, we’re part of an integrated transport—we’re part of a system, and NZTA and ourselves believe that—and MOT—that it’s a system.

Shaw There’s nothing integrated about it.

Peters It’s a very loose use of the word integrated. You guys are being shafted.

Reidy Rail doesn’t go up every valley or every corridor in the country. It follows where the rail is. So there’s always a truck involved somewhere.

Shaw But he said that they were losing business on to roads of national significance.

Chair Let’s save that for later on.

Peters It’s an absolute no brainer.

Chair Mr Peters, let Mr Wood have his question. You’ve had your questions and lining. It’s Mr Wood’s time.

Peters Well, National—their party has had three lots of questions and my party’s had one. That’s not how it goes.

Chair Yeah, I’ve got some times here.

Peters Point of order. That’s not actually how it goes. It goes by party not by member.

Chair Yeah, OK. Well, it’s Mr Wood. I’ll give you a crack after Mr Wood.

Peters OK. I’m not going to be fobbed off here.

Wood It’s a new old line, just returning to a very specific point about the business case—the diesel/electric business case. What were the assumptions about the long-run cost of diesel and the long-run cost of carbon that were built into the business case?

Reidy I don’t have the data here, but we definitely went through that. I can come back with that answer.

Wood Yeah, that would be very helpful. My understanding was that you’re banking on it being relatively static. Does that sound about right?

Reidy I’ll come back and confirm that.

Peters I just want to ask him this one last question. [Inaudible] enlightened Government was to provide railway with far more funding, in the public interest, and facing the reality of the carbon cost and also the absolute no brainer of trying to use roads like you see in parts of this country that are
being broken up every day by the number of trucks going down it. If a modern Government provided you with those funds, would your policy change?

Reidy On diesel? On electric?

Peters No, on supporting a far greater involvement of rail.

Reidy A policy change?

Chair Have another go.

Peters Well, I began by asking—[Inaudible] asking the auditing office whether or not they thought that railways worldwide—every public network—made a profit, because I don’t know one that does. My point is, for those that are not making a profit, if an enlightened Government wants to say “Well, we’ll put up the difference.”, would your railway strategies then change?

Reidy Right, OK, no, our strategy to simplify, standardise, and invest in the business wouldn’t. The way to make money in this asset is lifting asset utilisation and making sure your fuel is efficient—65 percent of our costs are fixed, so it’s labour and fuel, and it’s an asset intensive business. You’ve got to those wheels turning. So if your asset utilisation is low, you won’t make money. So our whole strategy is about longer trains, fewer trains, and heavier trains. So our strategy wouldn’t change. In fact, the growth corridors that we’re focusing on would not change.

Moroney Would your strategy on electric to diesel change?

Reidy No.

Moroney Really? So why are keeping that line electrified?

Reidy That was not a funding decision from our perspective.

Foss Can we have confidence that you are doing all that you can every single day, and with your long-term plans, to get the best return—most efficient return—for your shareholder, the taxpayer, at the end of the day; and can you just give us a headline of what the quantum of taxpayer assistance in various ways to KiwiRail in the last, say, 10 years or so has been?

Reidy OK, so in the last 5 years, the investment in the business has been a billion dollars—grants, $500 million; but grants are for metro. So just take the billion. Of that billion, 70 percent is, approximately, the network. What you’ve seen, and because of the money that’s been going in there, you’ve seen a dramatic increase in [Inaudible]—last year we grew 11 percent; the Port of Tauranga, just to December half year, has grown 19 percent year on year. We’re connecting more ports. So I think the return we’re getting is we’re seeing growth in import/export, we’re seeing growth in domestic, bulk has come back—so bulk milk and coal. And that’s been the real down side, is that the Fonterra bulk milk—liquid milk—we carried is about 80 percent less than it was 2 or 3 years ago. And coal’s come back. So we get
buffeted by 70 percent of our freight is exposed to export commodities factors.

To answer your question, you’ve got to break it out into the above-rail. The above-rail: we make—3 years ago we were making about 12 percent return on revenue; last year we made 12.6 percent return on revenue. If you benchmark that around the world—I mean, our goal is to lift that, but if you benchmark that around the world, it’s in the middle. It’s very difficult to make money in New Zealand with a small, skinny country with not a lot of bulk. Around the world, rail is dedicated towards bulk, where you’ll have fixed contracts, 10 years, 7 days a week coal, for example, or iron ore. We don’t have that product mix in New Zealand, so we’ve got to be as efficient as we can.

I’m comfortable right now that our strategy to drive efficiency in the business—the global leaders I’ve got. The leader from Queensland Freight has joined us; Roy Sullivan, the global rolling stock leader. That’s where we’ll get the efficiency savings in terms of lifting asset utilisation. We’ve got to invest in our rolling stock because then you’ll get a reduction in maintenance costs. And our fuel savings are coming back. In terms of technology we put in our locos, we’re actually burning less fuel now per net tonne kilometre than we were 2 or 3 years ago.

So, look, we’re on track. We said we’d take $30 million a year savings out; we did $27 million last year, and this year we’ll do $18 million. We will continue to drive the business hard; there’s a lot more we can and will do, but in the last 2 years, I think, we’ve made very solid progress.

Foss

Thanks. In your introductory remarks, you talked about safety and working closely with the NZTA. So could you describe what that means to the committee and, also, outstanding engagements or recommendations you’ve had with other safety agencies of Government.

Reidy

Sure, sure. OK, so level crossings is quite a big risk in New Zealand. There’s 2,500 level crossings—1,400 of those are on mainlines. We’re working closely with NZTA to look at technology options, to look at where we invest. We upgrade about 8 to 10 level crossings a year. NZTA and ourselves want to lift that to 50 to 60 level crossings a year. We recently formed an integrated group, and we recently did presentations to eight local councils on trying to get a tripartite agreement around level crossings, and that’s the first time that’s ever been done—and trying to take the risk around level crossings.

The second thing is we work with TAIC, the transport investigation committee, and we work with NZTA on any outstanding issues. For example, there had been some issues 3 or 4 years ago to do with our train control, in terms of the hours and fatigue in our train control. We’ve invested in train control. We’ve completely changed the hours, but quite often when you get these notices come through from agencies, it’s got to go back through NZTA and then back through TAIC to get closed out. As of last week, we had eight outstanding TAIC/NZTA open issues to resolve, and there’s about seven or eight with NZTA. So it does take a combined
effort to get these closed out, and they can take some time because of the process it has got to go through to be closed out. But we meet with NZTA every month and we go through the register, and we’ve got two people right now focused on closing some of the historic ones out.

Peters  Closing what? Closing some of the historic ones out?
Reidy  Correct.
Peters  What do you mean by that?
Reidy  Well, for example, there’s a—TAIC did an investigation—NZTA did an investigation into our train control on roster hours 3 or 4 years ago—3 years ago. Big improvements were made—changed our rosters, changed our breaks. We did an external peer review from Queensland Freight, and they said: “You’ve got a very strong train control.” NZTA has had a look at it and they’ve closed part of it out. These things take a long time to close out; even though we’ve done our side of it, it will take NZTA and TAIC to go through their side of it as well. But we regularly meet with TAIC and NZTA on any outstanding safety notices, and we’re all working through closing those out as much as we can.

Peters  Just one thing, the connection between the main rail and Northport—the corridors there—the land’s been designated. Why have you never contemplated going to Government to get the funds to build that line given that it’s the only viable deep port in this country now?
Reidy  Right now, the bigger prize is the million litres of milk coming by truck—that’s the prize if we can get it on rail. The second prize is Wayne Brown’s dairy factory, 26 kilometres off the main trunk line—that’s the second prize. The main lining through to port—that’s a Northland port. If the Northland port want to come and talk to us about that and invest in that, then we’re happy to talk to them, and if there’s volume there. But the two areas we’re focusing on are direct customers, particularly Fonterra. The other opportunity is working with regional councils on a logging hub and maybe connecting more of Otira. So, you know, we don’t see the line to Marsden Point being our sole obligation, but if Northport and the local council up there want to drive that, or even Auckland port, then we’re happy to be part of those discussions.

Unidentified  Or the Government?
Peters  And Government. I mean they’re throwing money around like an eight-armed octopus in Auckland.
Chair  Is that a question? Right-o. That’s it. Thanks very much, Mr Reidy. Thank you very much for your time. Mr Janes, nice to see you, and Mr Moyle.

**conclusion of evidence**
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Kordia Group Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Kordia Group Limited, and recommends that the House take note of its report.

Introduction

Kordia Group Limited is a State-owned enterprise operating in New Zealand, Australia, and internationally. It describes itself as a specialist telecommunications, broadcast, and cyber-security business. It builds, operates, and maintains broadcast transmission, telecommunications, and internet services. It also provides consultancy services in the technology, media, and telecommunications markets.

Kordia Group Limited is wholly owned by the Crown, but its liabilities are not guaranteed by the Crown. The shareholding ministers are the Minister of Finance and Minister for State-Owned Enterprises. Kordia Group Limited is the parent company of Kordia New Zealand and Kordia Solutions Australia.

Scott Bartlett is the chief executive of Kordia Group Limited; the board is chaired by Lorraine Witten.

Financial and service performance

In 2015/16, Kordia recorded a net profit after tax of $12.26 million, 32.8 percent up on the previous year. It paid or declared dividends of $13.5 million for the year. In 2015/16 Kordia completed paying down its debt, which had stood at $110 million in 2008, and achieved a cash surplus of nearly $7 million. These results were possible in part because of the strong growth of the telecommunications industry.

We note that Kordia’s financial performance and audit results are consistently strong. The Auditor-General (OAG) rates its management control environment as “very good”. Its financial information systems and controls remain “good”, with the OAG suggesting some minor improvements.

Reporting of financial information

We asked why Kordia does not report its broadcasting and television revenues separately. Kordia said one reason was that the release of commercially sensitive data would be harmful for the business. Kordia also noted that it provides a shared platform, with other services besides television and radio. Some members expressed concern about this.

Christchurch broadcasting tower

With fires in the Port Hills of Christchurch at the time of the hearing, we asked whether Kordia had been, or could be affected. We heard that its Sugarloaf broadcasting tower was in close proximity to the fire. Kordia had activated its disaster recovery plans and internal “war rooms”, and had a camera on the side of the building to monitor the situation. It had been in touch with customers to mitigate the effect on essential services.
If the tower were to catch fire, terrestrial television (freeview using an antenna) would be affected, and a number of FM radio services. Kordia informed us the alternative site at Southbank was suitable for FM radio services, but not television.

**Transition to digital technologies**

One of the challenges for Kordia is managing the challenges of the transition to digital television from analogue.

Kordia said that with new technologies, the nature of broadcasting is changing completely. For its broadcasting customers, this is about making the transition to online broadcasting from television. For example, Parliament TV provides coverage of House and committee proceedings on the Parliament website.

In terms of Kordia’s business, the transition to online broadcasting may mean that Kordia gets out of broadcasting, as there will be less value it can add to this service. Instead, Kordia aims to provide network services for New Zealand businesses as well as expanding into information security and cyber security.

**Partnership with Aura Information Security**

Aura Information Security has been part of Kordia Group Limited since November 2015. Aura provides Kordia with cyber security advice on issues such as hackers, malware, and other information-related crimes.

We were told that the recurring revenue components of the business are doing very well. Kordia recognises that many people are aware of the need for cyber security. By having Aura as part of their group, Kordia sees an opportunity to add value to New Zealand in this field. The key for Kordia is to identify the talent and key people in the cyber-security industry, both in New Zealand and offshore, to contribute to its work.

**Competition in the market**

We asked about the competition Kordia faces in providing free-to-air transmission services in New Zealand. Kordia rejected a suggestion that it has a monopoly over the market. It acknowledged that it is the largest of its kind in New Zealand. However, it said there are other service providers, and some people do their own transmission.

Kordia said the internet is driving competition in the market, and this is something it has to adapt to. The introduction of new TV channels such as Checkpoint, Home and Garden television, and ethnic language channels are a response to the growing competition provided by online services.

**Unused digital spectrum**

We heard that Kordia has the rights to unused capacity on spectrum. Kordia explained that it plans to lease the spectrum to anyone who wishes to use that capacity for broadcast services.

Kordia said it did not have a view on the decision not to allocate spectrum to independent community operators like Stratos, which were forced to close as a result of the impact on commercial rates.
Appendix

Committee procedure
We met on 16 February and 23 March 2017 to consider the annual review of Kordia Group Limited. We heard evidence from Kordia and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Kordia Group Limited, Responses to written questions 1—102, received 13 February 2017.
Kordia Group Limited, Presentation, received 16 February 2017.
Kordia Group Limited, Responses to written questions 103—113, received 3 March 2017.
2015/16 Annual review of Maritime New Zealand
Report of the Transport and Industrial Relations Committee

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Maritime New Zealand

**Recommendation**

The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of Maritime New Zealand, and recommends that the House take note of its report.

**Introduction**

Maritime New Zealand is the national regulatory, compliance, and response agency for the safety, security, and environmental protection of coastal and inland waterways.

It was established to promote a safe, secure, and clean maritime environment for all commercial and recreational activities in the water. It seeks to minimise the effect of maritime incidents and accidents on New Zealand’s land, waters, and people.

**Financial performance**

In 2015/16 Maritime New Zealand reported a deficit of $344,000, the same as in the previous year. Total revenue in 2015/16 was $38.8 million and total expenditure was $39.2 million.

Maritime New Zealand told us that it had been running in deficit over the past few years but is now in a more balanced position and becoming financially sound. It has been through a funding review and expects a small surplus in the upcoming year.

New Zealand’s Oil Pollution Levy (OPL) is collected from industry to run the system that prepares for and responds to incidents involving maritime oil pollution. The New Zealand Oil Pollution Fund achieved a surplus of $979,000 in 2015/16. This was achieved largely because growth in the quantity of shipped oil cargo led to higher levy revenue.

**Maritime New Zealand’s operations**

Much of Maritime New Zealand’s work is driven by the international environment through the International Maritime Organisation (IMO). However, it tries to ensure that any international changes are not a burden to New Zealand and are fit for New Zealand conditions. It is a small organisation, but it has an extremely wide-ranging remit, from managing paddle-boarding operations through to international container vessels and large-scale search and rescue.

Over the last few years, the focus has been on regulatory reform. The marine operator safety system (MOSS) and SeaCert have been the two major programmes ensuring that operators have a new safety system and the people operating the system are suitably qualified. This has resulted in a heavy workload for the organisation, but things are now progressing smoothly and the interaction with industry has been very positive.

We were pleased to hear that in 2015/16 recreational boating fatalities reduced 50 percent compared to the previous year. The organisation is focused on sustaining and improving this trend. Reforms under the Health and Safety at Work Act 2015 are now in place, and Maritime New Zealand has responsibility for ensuring their success for domestic marine
operations. Management considers that it is a highly engaged organisation. Its engagement surveys have consistently shown that staff are positive about where they work.

**Security screening of foreign vessels**

We discussed at length Maritime New Zealand’s role in the security screening of foreign vessels. We were concerned that it had halved its target for the proportion of foreign ships that it aimed to screen for security non-compliance, but had still failed to achieve the new performance target. In the past, the organisation aimed to screen every ship entering New Zealand waters. For 2015/16 this goal had been reduced to 50 percent of ships. However, it had screened only 45 percent of the 800 or so ships that entered New Zealand’s ports.

Maritime New Zealand acknowledged that it had failed to meet its target for 2015/16. However, it explained that the target related only to desktop screening by an analyst, which was only a small part of the overall maritime security system. In fact, it said, it has now stopped desktop screening as it had proved not to be a useful tool. In 2015/16, it had identified potential risks in less than 0.7 percent of the vessels screened.

Maritime New Zealand assured us that it has not dropped this screening as a way of “lowering the bar”. Rather, it was because desktop screening added little value to the outcome it seeks, which is a high level of compliance with the security regime. It apologised that this had not been well explained in its written answers to our pre-hearing questions.

The chair assured us that Maritime New Zealand is working “to tighten the net, not loosen it”. Its methodology is now to address security compliance through the overall intelligence-gathering regime, and through port security controls and inspections.

**The overall maritime security system**

Maritime New Zealand explained that the security system entails a multi-agency strategic approach to managing risk. Maritime New Zealand works in a closely integrated way with New Zealand’s security intelligence services, the New Zealand Customs Service, the Ministry for Primary Industries, the New Zealand Police, and other agencies. It has access to both classified and unclassified information, and is part of the Integrated Targeting and Operations Centre in Auckland. This is a multi-agency organisation run by Customs.

The agencies’ work complies with the overall international system known as the International Ship and Port Facility Security Code (ISPS). This system, developed after 9/11, revolves around intelligence-gathering and profiling. It looks at the behaviour and characteristics of the vessel, the owners and operators, the country of origin, and the people on board to assess what risks they might pose. The results then trigger further checks and controls, where appropriate.

As to what the screening looks for, we were told the focus is on a wide range of risks. Terrorism is one aspect, but it includes risks around drugs, weapons, organised crime, nuclear, biological and chemical materials, and pornography. We asked whether the screening provides a wall of defence against the importation of illegal firearms. We heard that any vessel entering New Zealand waters has risks attached. Maritime New Zealand said it cannot provide categorical assurance that such things will never happen, but its role is to find ways to ensure they do not. It does so by working with other agencies.
We asked what other countries are doing and what constitutes international best practice. We were told that other countries operate multi-aspect screening, based on this sort of comprehensive information gathering and sharing.

Maritime New Zealand told us its practices have been audited independently by the United States Coast Guard. The United States Coast Guard visits the countries that trade with the US to check that it is comfortable with their security operations. We were told that the results of the last audit, in 2016, were very positive.

We recognise the vital importance of maritime security for New Zealand’s international reputation. We intend to seek further assurance about the effectiveness of New Zealand’s security screening at our next review.

The Francie

The Francie, a chartered fishing vessel, capsized in Kaipara harbour in November 2016. Eight men drowned, and three survived. The skipper had been trying to cross the Kaipara bar in a storm. We heard that the Francie was under the new MOSS regime which had replaced the former Safe Ship Management system. The owner had held a skipper’s certificate since April 2016. We heard that there had been another rescue involving the Francie prior to the accident. We sought assurance that the new MOSS system works, and asked what happens when there is an incident.

Maritime New Zealand acknowledged that the sinking of the Francie was a tragic event. Before this incident, it had worked with the skipper to support him to improve his practice and to comply with safety requirements before being allowed into the MOSS system. On the day of the accident a bad decision was made. The Transport Accident Investigation Commission is investigating the incident, so Maritime New Zealand could not comment on several aspects. However, it said it would examine the results of the investigation in depth.

We asked if there were any conditions on the boat’s certificate, and heard that one of the primary conditions was that passengers had to wear lifejackets when crossing the bar. Bar crossings are notoriously risky.

We asked if the earlier incident with the Francie had been reported. Maritime New Zealand told us after the hearing that the operator had reported this incident as mechanical failure. As there were no previous reported incidents of this nature involving the Francie, Maritime New Zealand was satisfied that the issue had been rectified.

We asked about near misses and heard that Maritime New Zealand looks at reported incidents; near misses are included in that category. We heard that matters are acted upon if they are reported to Maritime New Zealand. There is a requirement for all incidents to be reported, but this is not always done.

We encourage Maritime New Zealand to continue to work with the sector to increase the rate of reporting of incidents and near misses.

Labour Maritime Convention

We are aware that the Labour Maritime Convention comes into force in 2017. This will give Maritime New Zealand the ability to inspect foreign-flagged ships. We asked what Maritime New Zealand was doing in preparation for this.

We heard that it has trained front-line inspectors to understand the requirements of the convention. Currently, 22 vessels in New Zealand have to comply with the convention.
Maritime New Zealand told us that resourcing for this change would be built into its current port state control work programme, where it is rebuilding capability.
Appendix

Committee procedure
We met on 16 February, and 16 and 23 March 2017 to consider the annual review of Maritime New Zealand. We heard evidence from Maritime New Zealand and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Dr Parmjeet Parmar
Hon David Bennett
Peeni Henare (until 22 March 2017)
Raymond Huo (from 22 March 2017)
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Organisation briefing paper, prepared by committee staff, dated 16 February 2017.
Maritime New Zealand, Responses to committee questions, dated 30 January 2017.
Maritime New Zealand (Appendix 1, Administration, Property and Procurement Preview).
Maritime New Zealand (Appendix 2, Mini review, IRMA team and a Legal and Policy Group position).
Maritime New Zealand (Appendix 3, DO/NEIO Reshuffle).
Maritime New Zealand (Appendix 4, Safety and Response Group).
Maritime New Zealand (Appendix 5, Structuring for Success).
Maritime New Zealand (Appendix 6, Policy and Regulatory Team Reframing).
Maritime New Zealand (Ancillary questions and answers).
2015/16 Annual review of the Meteorological Service of New Zealand Limited

Report of the Commerce Committee

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Meteorological Service of New Zealand Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Meteorological Service of New Zealand Limited, and recommends that the House take note of its report.

Introduction

The Meteorological Service of New Zealand Limited (MetService) is a State-owned enterprise, operating under the State Owned Enterprises Act 1986 and the Companies Act 1993. It was established in 1992. MetService has 249 full-time equivalent staff. It has four offices in New Zealand, and two overseas. In 2015/16, MetService incorporated a new company in Thailand—Metraweather Thailand Limited.

MetService has a dual focus: on supporting the safety of life and property, and on generating a commercial return, both underpinned by “good science”. It provides national weather forecasts and information to the public in New Zealand. MetraWeather is the international brand of MetService. It delivers weather intelligence products and services to weather-sensitive industries and businesses around the world.

The board chair is Anthony Howard and Peter Lennox is the chief executive.

Financial and operating performance

MetService’s total revenue in 2015/16 (including government grants of $38,000) was $51.018 million, an increase from $46.045 million in 2014/15. Its net profit was $1.935 million, up from $0.911 million the previous year. Operating profit rose by almost 60 percent from 2014/15, to $3.62 million.

MetService’s profitability had been affected in 2014/15 by delayed confirmation of its contract with the Ministry of Transport (MoT), which accounts for a large proportion of its revenue. Its revenue growth recovered in 2015/16, to 10.8 percent, but was still below the level forecast. MetService reported that profitability did not return to the level of 2013/14 (when it was $5.1 million) because increased investment was needed in resilience and Information Services Strategic Plan initiatives.

The Office of the Auditor-General reported that MetService is a generally well-performing entity, financially. It assessed MetService’s management control environment and financial information systems and controls as “very good”.

Dividend policy and resilience strategy

MetService pays an annual dividend to the Government. The dividend payment policy has been adjusted, to reduce payments in order to accommodate debt reduction, reinvestment in aging infrastructure, and increasing resilience. We note that MetService’s dividend payout is zero for 2015/16, as in the previous year.

We asked how long the dividend policy and resilience strategy would last. MetService said that it expects to pay a dividend of $1.3 million for the 2016/17 year.
We heard that the resilience policy is due to last about three or four years, and that resilience remains a key priority for MetService. It opened a new office in Auckland in October 2016, aiming to strengthen the resilience of its forecasting capability and remove the dependence on its Wellington operations.

**Access to weather data**

**Ministry of Business, Innovation and Employment review**

We are aware that the Ministry of Business, Innovation and Employment (MBIE) has commissioned a report on “open access to weather data” to determine whether more Government-held weather data should be made available for public access to help stimulate innovation and promote economic growth.

MetService said that it is “actively engaging” with the review, and has made both oral and written submissions. It understands that the review will take place in two parts, with the first expected to be completed shortly.

We asked whether the independent review was driven by a perception that MetService and NIWA are competing in the same space. MetService considers that it works constructively and collaboratively with NIWA. It said that the weather-related information from NIWA that competes with MetService accounts for only about 1 percent of NIWA’s business.

**Improving access to weather data**

We asked why there is pressure to have more open access to weather data. MetService said there has been a surge of public opinion around the world that all data held by government agencies should be freely accessible, including weather information. MetService believes that the crucial aspect is who pays for production of the data, because “somebody has to pay for it”. We heard that MBIE’s review will consider the cost of producing data that would be given away freely.

**MetService’s revenue and mandate**

We asked what proportion of the organisations that MetService sells its data to are taxpayer-funded. MetService said about 40 percent of its revenue comes from its contract with the MoT. It added that 75 percent of its total revenue comes from regulated bodies such as the Civil Aviation Authority, and the work that it does with the New Zealand Transport Agency and MoT. The remainder, about 25 percent, is from international operations and other companies that “in the strictest sense”, are not government-owned.

MetService’s revenue from taxpayer-owned and funded organisations in 2015/16 was $26.841 million. The cost of collecting and providing information and data to taxpayer-funded organisations in that year is estimated at $26.393 million.

Some of us are concerned that weather data produced by MetService is not more freely available publicly, given that a large portion of its income comes from taxpayer-funded sources.

MetService said the MBIE review will address this matter. It noted that, as a State-owned enterprise, it has to operate in a way that provides profit and efficiency equivalent to organisations or companies that are not Crown entities. It added that there is a particular

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1 NIWA is the National Institute of Water and Atmospheric Research, a Crown Research Institute.
mechanism that it uses to collect information, and that Government policy is being reviewed to determine whether or not that should be open to others.

**Public weather safety contract and the open data programme**

We asked whether MetService’s contract with MoT contains a clause requiring it to provide open access to data.

MetService confirmed that this is a clause in the contract. It is a member of the World Meteorological Organisation (WMO), a specialised agency of the United Nations, and has a commitment to the WMO that data should be made freely available to others. It said that the set of data that is made open is specified on its website.\(^2\) MetService said that it adheres to the WMO standards. We were also told that MetService has a data access policy that outlines the kinds of data it acquires and the data’s availability.

We asked whether MetService is breaching WMO standards, or its contract with MoT, by not meeting the public standards expected by the open data programme (Open Data NZ). MetService contended that it is in line with what is required of it by government standards.

**Alternative providers of weather information**

New Zealanders obtain weather information from various sources, including consumer apps and services. We asked where providers such as Google, Facebook, and Apple get their weather information from. MetService said that it does not have a commercial relationship with those entities. It said that these providers acquire weather information from a number of weather models, with varying degrees of accuracy. Some sources provide information for free, and others operate on a subscription basis.

\(^2\) [http://about.metservice.com/our-company/about-this-site/open-access-data](http://about.metservice.com/our-company/about-this-site/open-access-data)
Appendix

Committee procedure

We met on 9 February and 9 March 2017 to consider the annual review of the Meteorological Service of New Zealand Limited. We heard evidence from MetService and received advice from the Office of the Auditor-General.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


MetService, Responses to written questions 1–102, received 7 February 2017.

MetService, Responses to additional written questions 103–109, received 28 February 2017.
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Ministry of Business, Innovation and Employment

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Business, Innovation and Employment, and recommends that the House take note of its report.

Introduction
About the ministry
The Ministry of Business, Innovation and Employment states that it aims “to grow New Zealand for all”. It works to increase real household incomes through more competitive businesses, increased job opportunities, and more affordable housing.

The ministry co-leads work on the Government’s Business Growth Agenda. Its responsibilities cover a wide range of areas, including immigration, communications, energy and resources, regional development, housing, building regulation, tourism, and government procurement.

It is a very large agency, with more than 3,200 employees—over 6 percent of the public service workforce. The chief executive is David Smol.

Focus of our review
As noted above, the ministry’s work is wide-ranging. It administers three Votes (Vote Business, Science and Innovation; Vote Labour Market; and Vote Building and Housing). It works with 14 portfolio Ministers, and monitors or funds 27 Crown entities and companies.

Our review focused on the activities of the ministry that broadly fall within the commerce subject area. Three other committees are reviewing entities in which the ministry has a policy or overview interest:

- Education and Science Committee: science and innovation
- Social Services Committee: social housing
- Transport and Industrial Relations Committee: accident compensation, and workplace safety.

The Finance and Expenditure Committee allocated the annual reviews to subject select committees on this basis. In doing so, it recognised that this approach would better match the annual reviews with the votes that each committee considers during its Estimates scrutiny.

Financial performance and audit opinion
The ministry’s total expenditure in 2015/16 was made up of departmental expenditure of $618.585 million (up 6 percent from the previous year) and non-departmental expenditure of just over $3.288 billion. The ministry’s departmental revenue was $678.680 million. The ministry had a net surplus of $60.095 million for 2015/16, compared with a surplus of
$32.027 million the previous year. The increased net surplus was mostly due to increased immigration revenue.

As well as its own spending, the ministry administers a large amount of non-departmental expenditure. This totalled just over $3.288 billion in 2015/16, up about 8.7 percent from about $3.025 billion in 2014/15. This money was administered, on behalf of Ministers, for services provided by Crown entities and research facilities.

The Office of the Auditor-General (OAG) assessed and graded the ministry’s performance information and associated systems and controls as “good”. We were pleased to see this progress from the 2014/15 grade of “needs improvement”. The OAG said the change reflects considerable work by the ministry to improve its performance reporting.

However, we are concerned that the OAG continues to rate the ministry’s management control environment and its financial information systems and controls as needing improvement. It has recommended that “major improvements be made at the earliest reasonable opportunity”. We hope to see progress in these areas by the time of our next review.

**Payroll errors**

The OAG’s annual audit raised as a significant matter that the ministry has not been meeting the requirements of the Holidays Act 2003. This Act provides employees with minimum entitlements to annual holidays, public holidays, sick leave, and bereavement leave. The ministry’s non-compliance has resulted in leave payments being miscalculated, particularly where employees’ hours fluctuate or they receive additional pay on top of normal hours.

We heard that the ministry started a payroll remediation project in October 2015 to assess the size of the error in calculating holiday pay, and to repay those involved. A team of 11 people from various backgrounds is working on the project.

We asked about the timeline for resolving the issues, as the Minister for Economic Development had told us that the ministry expected to have the problem resolved in late 2016. We were told that the ministry plans to complete the calculations for remediation by the end of 2016/17 or earlier. It would then make the necessary repayments, first to current staff, and then to former staff. The chief executive was confident that the ministry will have resolved its payroll issues by the time of our next annual review.

We asked for an estimate of the liability. We were told that the ministry does not have an estimate because of the issue’s complexity. It has a list of the employees potentially affected, but must go back and recalculate pay runs covering several years. Until this is done, it cannot work out the costs involved.

The ministry told us it expects to manage the financial implications within its existing budget. Some of us expressed strong concern at the lack of information on the quantum of the payroll remediation, and whether the ministry could manage the financial implications within its existing budget.

**Unpaid wages under the Holidays Act**

We discussed non-compliance with the Holidays Act more generally. The ministry has a programme of work led by the Labour Inspectorate. The inspectorate supports employers to comply with the Holidays Act through government–industry work streams, audits and investigations, and education and information.
The ministry said it is working with partners like the Council of Trade Unions and in-field Business New Zealand practitioners to identify issues so that it can give clear guidance to those responsible for paying staff.

**New Zealand Business Number**

The ministry has recently introduced the New Zealand Business Number (NZBN), a unique identifier used for all interactions with government. We were told that NZBNs have already been allocated to businesses that are incorporated. The ministry will be ready by the end of 2016 to start allocating NZBNs to smaller businesses that are sole traders, and will then start promoting the benefits of the NZBN to them.

We note that there is some confusion about the various numbers in use: they include numbers for the Inland Revenue Department (IRD) and the Accident Compensation Corporation (ACC), as well as the NZBN. We asked how businesses, particularly small and medium-sized enterprises, would benefit from the NZBN. The ministry said it sees value for small businesses and sole traders to interact with government in a more straightforward way. It noted that ACC and IRD are updating their systems to use NZBNs, and it expects the NZBN to take precedence over time. As more government agencies adopt the NZBN, the ability to update information at all NZBN agencies by contacting just one agency will be a huge advantage to small businesses.

We heard that the roll-out would take one to three years. The ministry expects the NZBN to be accepted by most agencies that deal with businesses by the end of the 2019 financial year.

We plan to seek regular updates on how these targets are being met.

**Research growth and development**

We asked about the National Statement of Science Investment’s target of having businesses spend 1 percent of GDP on research and development (R&D) by 2018. The ministry told us that this is a very challenging target, as New Zealand has been at the lower end of business R&D spending among OECD countries. In contrast, New Zealand is well placed among OECD countries for government R&D spending. We heard this is partly due to the nature of this economy, as New Zealand has a very large number of small and medium-sized enterprises. The larger firms tend to be clustered in the agriculture sector.

We were pleased to hear that the ministry has seen quite significant increases in business R&D expenditure since it introduced the business growth grants that Callaghan Innovation delivers. The ministry expects results from the biannual business R&D survey in 2017. We look forward to seeing the results of this survey.

**Regional Growth Programme**

We sought more information about the ministry’s Regional Growth Programme. The programme identifies potential growth opportunities in selected regions, and aims to increase jobs, income, and investment in regional New Zealand. The ministry is working with nine different regions. The action plan for the Southland region was launched in late 2016. Action plans are led by the region, with a deputy chief executive from a government agency assigned to each as a liaison point.

We asked for an update on the Toi Moana Bay of Plenty Economic Action Plan. A key action is the Ōpōtiki Harbour Transformation Project, which aims to create a year-round navigable harbour entrance. It includes construction of a new commercial wharf to support
a range of industries, including processing facilities for a 3,800ha offshore marine farm. We heard that this farm and its processing plant would provide about 220 jobs in the region.

The ministry told us it should know by mid-2017 whether the project will go ahead, as it is a significant commercial decision. We are interested in hearing more about this project’s progress in the future.

**Regional economic activity tools**

The ministry told us about its new mobile application for smartphones, the New Zealand Regional Economic Activity App, which is free in the app store. It allows users to browse key figures and charts on 16 regional council areas and 66 territorial authority areas. It provides information about incomes, house values, rents, employment, migration, and GDP in any given region. The ministry said it makes the app as real time as possible by updating it as soon as new statistics become available.

We asked how much had been spent on advertising the app. Since its launch in October 2015, a total of $5,982 has been spent on paid social media marketing via Twitter.

**The ministry’s use of contractors**

We discussed at length the ministry’s significant spending on contractors. We asked whether the ministry considers it acceptable or desirable to use contractors as extensively as it does. The ministry said it uses contractors when it needs a specialist skill or independent perspective, or when it faces a temporary peak in a certain area that does not require permanent employment. It added that in some areas, such as IT project management, it can be challenging to find high quality candidates. Often it uses people for fairly short-term work when immediate action is needed.

The ministry told us that its work continues to increase as it has taken on several new functions, and has seen growth in third-party-funded activities in areas such as Immigration New Zealand, the Companies Office, and the Intellectual Property Office. Several of the new functions have involved investing in capability to get them started.

The chief executive emphasised that the ministry continually seeks to improve its discipline about the use of contractors. Over time, he hopes to improve the ratio of employees to contractors. However, he added that if the ministry’s work continues to grow, overall spending on contractors may increase, even as it reduces as a proportion of total spending.

**Tender process for contract work**

We pointed out that many contractors from certain employment agencies appeared to have been taken on without a tender process. We heard that these agencies had an External Recruitment Services contract, which covers the whole of government. Once agencies have these contracts, government departments are able to use them on an as-needed basis, without going through a tender each time.

**Cost of contractors**

We questioned the payment of more than $1 million to a consultant from PricewaterhouseCoopers for the organisational design and process creation of Immigration New Zealand’s Vision 2015 programme. The ministry indicated that this was a major transformation programme involving expenditure of $136 million over four years, and the $2.3 million total cost of consultants for the programme should be viewed in this context.
We questioned why some contractors received over $400 an hour. The ministry told us this was a maximum hourly rate, usually involving a partner at a firm. However, the charge-out rate was usually less than this.

**Business Growth Agenda**

The Business Growth Agenda aims to build a stronger economy by creating conditions for firms to be more productive and internationally competitive. It has a goal for exports to reach 40 percent of GDP by 2025. Currently, exports make up less than 30 percent of GDP. We heard that the recent decline in dairy prices and the variable performance of some of New Zealand’s trading partners has not helped in meeting the target.

The ministry acknowledged that it is an aspirational target, as it would be hard to argue that it is on track to meet it by 2025. However, it will continue to work on opportunities for export growth.

**Immigration issues**

Immigration is the largest single part of the ministry’s departmental expenditure (about 46 percent). The number of visa applications increased considerably in 2015/16.

We were disappointed to note from the performance measures in the ministry’s annual report that it failed to achieve several timeliness targets for its immigration services. The ministry said that it dealt with several major issues to do with student visas over the past year, and needed to take the time to reach sound decisions. Overall, it considers that its performance track record has been improving.

**International workers and students**

Some of us are concerned that many foreign students gain low-level diplomas from private tertiary education institutions as a means of obtaining work permits, often for low-skilled jobs that are not on the skills shortage list. This has the effect of holding down wage rates, rather than lifting skill levels. Some of us suggest that Immigration New Zealand should do more to match migrants who come through tertiary institutions with shortages in high-skilled areas such as the ICT industry, where 10,000 graduates are needed.

The ministry acknowledged that, as in other countries, Immigration New Zealand packages international education with pathways into the labour market. It said there has been a focus on improving the match between migrants through the education pathway and the skills that the economy needs. For example, adjustments have been made to the points requirements under the skilled migrant category. The ministry has worked with the Ministry of Education on the tertiary education strategy, to help link institutions with employers’ needs. The Government has also funded the establishment of ICT graduate schools as a direct response to the need for expertise in this area.

The ministry added that international education is a big growth area, both in New Zealand and internationally. Education-related travel was New Zealand’s fifth biggest export in the year ending June 2016, bringing in $3.539 billion. It sees it as positive for the economy if New Zealand offers good-quality courses, whether people return home afterwards or seek to stay. In the latter case, it was important to get the settings right for the transition into New Zealand’s labour market.

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Balancing immigration and local employment to meet labour shortages

The ministry has been leading work on a cross-agency initiative called the Sector Workforce Engagement Programme, which started in 2016 under the Business Growth Agenda. The programme works with businesses in several sectors in an effort to ensure that labour shortages are not simply met through immigration, but that local skills are also developed. The programme seeks to have employers give priority to domestic job seekers, including beneficiaries.

We heard that labour shortages in the horticulture and hospitality industries are being met in several ways. One option is international students moving into jobs. Another is the working holiday scheme, which is particularly important for the hospitality industry. We heard that high tourist areas such as Queenstown will always rely on people on working holidays to supplement local labour.

A third approach is the Recognised Seasonal Employer (RSE) scheme. This scheme is particularly important in the horticulture sector, where demand for labour is clearly seasonal. Employers with RSE status may bring groups of temporary workers from overseas to work for up to seven months of the year under this scheme. With bumper crops in the horticulture and viticulture industries in 2016, the RSE cap was increased by 1,000.

The ministry said that the RSE scheme has encouraged horticulture investment and economic growth in areas such as Hawke’s Bay. Employers report that RSE workers tend to have higher productivity than local labour. However, to address the high unemployment rate among youth and Māori in such regions, discussions under the Sector Workforce Engagement Programme have focused on encouraging businesses to develop the skills and productivity of young locals. The programme has resulted in a commitment from industry that 1,000 permanent jobs being created in the horticulture industry will go to locals.

Telecommunications

We asked what was delaying the rollout of part two of the Ultra-Fast Broadband initiative. We noted that expressions of interest were submitted in mid-2015, but there has been little news since then. The ministry said that commercial negotiations with prospective partners are advanced, but it could not say when they would be completed. This was a matter for Crown Fibre Holdings, which is leading the negotiations and would be seeking to get the best coverage for the best possible price.

Review of the Telecommunications Act

We asked for an update on the review of the Telecommunications Act, which has been under way for some time. The ministry told us that the review is progressing well. It has been working closely with industry and consumer groups, and several options papers have been circulated. The latest paper closed for submissions in September 2016. The ministry was unable to give a timeframe for the review’s completion. We intend to follow this matter and seek regular updates.

We asked whether the ministry was undertaking any work on the impact of multi-national content providers (such as Facebook and Google), on the revenue streams of telecommunications companies, and media organisations. The ministry was unable to confirm it was undertaking any analysis at the time of the hearing.
Appendix

Committee procedure

We met on 8 December 2016 and 9 March 2017 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.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O'Connor

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Ministry of Business, Innovation and Employment, Response to written question 33, dated 8 December 2016.

Ministry of Business, Innovation and Employment, Supplements 1–11 to response to written question 33, dated 8 December 2016.

Ministry of Business, Innovation and Employment, Responses to written questions 1–102, dated 8 December 2016.

Ministry of Business, Innovation and Employment, Appendices to responses to written questions 1–102, dated 8 December 2016.

2015/16 Annual review of the Ministry of Transport and the New Zealand Transport Agency

Report of the Transport and Industrial Relations Committee

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Ministry of Transport and New Zealand Transport Agency

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Transport and the New Zealand Transport Agency, and recommends that the House take note of its report.

Introduction

Much of our hearing concerned the discovery of an instance of fraud at the Ministry of Transport, which ultimately resulted in the conviction of a staff member. We discuss this issue in Part A of this report. Part B provides some general information about the ministry and the New Zealand Transport Agency (NZTA), and their financial performance in 2015/16. Part C covers other issues that touch on both organisations.

Part A: Fraud

Discovery of fraud at the Ministry of Transport: Office of the Auditor-General’s findings

During the ministry’s audit, the Office of the Auditor-General raised concerns about its procurement, contract management processes, and lack of appropriate supporting evidence for some expenditure. An external forensic review of these matters concluded that fraud had probably occurred, estimated to amount to $726,000.

Once the concerns were identified in April 2016, the ministry commenced an employment investigation, and informed the Police and the Serious Fraud Office (SFO). In July 2016, the ministry initiated reviews on how internal controls should be improved. In particular, these concerned the ministry’s procurement, contract management, recruitment, and expenditure approval processes.

The Office of the Auditor-General recommended that the ministry improve its internal controls. This includes enhancing its recruitment, approval of expenditure, procurement, and contract management procedures and associated policies.

The Office of the Auditor-General also recommended that the ministry implement a programme that regularly reviews internal controls and processes to ensure that they are operating effectively.

We intend to monitor the ministry’s progress in acting on these recommendations.

Background

In 2011, the ministry employed Joanne Harrison as Manager, Change, People, and Development. She was promoted to General Manager, Organisational Development in 2013. In April 2016, the ministry was alerted to irregularities in spending approved by Joanne Harrison. The ministry passed the information to the SFO when it emerged that the spending may have been fraudulent.
In November 2016, Joanne Harrison pleaded guilty to three charges of dishonestly using a document. This involved creating fake companies to invoice the ministry between 2012 and 2016.

In February 2017, Joanne Harrison was sentenced to three years and seven months’ imprisonment. At her sentencing, the judge revealed that Joanne Harrison had a previous conviction for a similar offence.

**Ministry of Justice and Police checks**

The ministry told us that, when it employed Joanne Harrison in 2011, it was not its practice to do Police or Ministry of Justice checks. It did only standard checks of references and credentials. It also asked individuals to declare whether they had any criminal convictions.

The ministry did no additional employment checks when Joanne Harrison was promoted in 2013 because she had been employed by the ministry for two years. This was despite her financial delegation increasing from $25,000 to $100,000.

Some of us suggested that the ministry would have discovered Joanne Harrison’s background of fraud if it had done a Police check when it employed her. The ministry noted that, in 2011, not many agencies carried out Police checks.

However, a written answer from the Minister of Police to a Labour member of the committee reported that Police in the state of Victoria, Australia, had been in contact with the New Zealand Police three times in 2011 about Joanne Harrison and investigations of fraud that had been conducted on her in Victoria.

The ministry said that it was dealing with someone who was “premeditated, was sophisticated, manipulative, and deceitful”. It believed that it would be difficult to stop someone through an employment check if they were intent on committing fraud.

We asked the ministry what checks it does now that it did not do in 2011. The ministry told us that, for the past two and a half years, it has been checking criminal records. It has also been open in talking about the fraud because it believes that one of the best ways to stop a fraud from happening is to make it harder for someone to come in with a fabricated story.

We asked why, if the ministry were keen on being open about fraud, it had kept quiet for so long. The chief executive told us that he began his role on 12 July 2016 and spoke to the SFO on 13 July 2016 about wanting to be open and transparent. The SFO advised that it and the Police needed time to establish a case and to put measures in place to recover the money.

**Non-compliance with ministry policies**

The sentencing judge found that Joanne Harrison had committed the frauds between November 2012 and July 2015. We asked when questions were first raised about her performance. The chief executive told us that “during that period there were a number of instances where Joanne didn’t fully comply with ministry policies”.

However, he said that when all of the instances were followed up, Joanne Harrison gave responses that seemed “sufficiently credible”. He believed it would have been a “big step” to assume from non-compliance with departmental policies that someone, particularly in a senior role and position of trust, was committing fraud. The chief executive said he thought that her responses were great examples of her manipulation and deceit.
We were told that the chief executive initiated two independent reviews and now it is implementing the improvements.

Some of us expressed concern that no action was taken against Ms Harrison until the Office of the Auditor-General reported her when there had been eight complaints with her non-compliance dating back to October 2013.

**Restructure of the ministry’s finance team**

A related issue concerns the disestablishment of three positions following the introduction of automated invoice processing at the ministry in 2015/16.

Some of us have heard that the three people made redundant had raised concerns about Joanne Harrison’s non-compliance with policies. The ministry told us that the restructuring decision was taken by the senior leadership team. Although Joanne Harrison was a member of this team, she was not the only member, and the General Manager, Sector Performance led the review.

Some of us are concerned that the people who were made redundant have had their careers ruined, and asked what compensation or redress the ministry had arranged for them. Some of us also believe that the ministry should conduct an investigation into whether Joanne Harrison had a role in the finance team redundancies or the demotion of staff members who interacted with her. The ministry told us that it would not investigate because it believes that the ministry, not Joanne Harrison, decided on the redundancies.

**Driver licensing fraud**

Some of us are concerned that the media, and not NZTA, is uncovering cases of driver licensing fraud. In March 2016 TVNZ reported a story about the fraudulent sale of driver licences. In February 2017, a Newshub report revealed fraudulent testing of heavy machinery drivers. NZTA disagreed that the media was discovering the frauds, noting that the Police had alerted NZTA to the fraud reported by TVNZ.

NZTA told us that it moved quickly on the March 2016 fraud. It completed an internal investigation of all of the licences of the group of people the Police identified. NZTA also commissioned an independent end-to-end system review by KPMG. This was to ensure that the review focused on all aspects of the licensing system and not just the issues that had been raised.

The KPMG review identified several areas for improvement. NZTA immediately implemented all of the short-term fixes and is working to implement the long-term changes. Some of these processes have taken longer. For example, setting up contracts was identified as an area for improvement, but it takes time to renegotiate contracts.

NZTA told us that it has completed 70 audits of the more than 100 driver licensing sites. Sites that are deemed high-risk have more frequent audits.

We asked what assurances NZTA could give the New Zealand public that the driver licensing system is free from corruption. NZTA told us that this is a priority for it. It has completed an independent review to ensure the integrity of the system, and it has addressed areas for improvement. It continues to monitor the situation.

**Auckland Transport fraud**

In February 2017, a senior manager at Auckland Transport was sentenced at the High Court in Auckland after being found guilty of bribery and corruption charges. Another
Auckland Transport employee pleaded guilty to accepting bribes and was sentenced in September 2016. The fraud involved receiving payments to award large roading contracts.

NZTA told us that one of the men convicted worked for NZTA on safety audits “quite a long time ago”.

We asked whether the contracts that were the subject of the court case involved any NZTA funding. NZTA said that it part-funds Auckland Transport maintenance contracts.

To check the robustness of the tendering process, a team from NZTA works with the councils that it funds. An audit process checks the main elements of the procurement procedures and contracts. For larger organisations, such as Auckland Transport, this is done much more frequently.

We asked whether these auditing processes had raised any matters of concern about Auckland Transport. NZTA did not believe that any were identified in the investment audits. However, it noted that the aim of audits is to check that systems are working, not to check individual transactions.

Part B: Financial performance of the ministry and NZTA in 2015/16

Ministry of Transport

The Ministry of Transport advises the Government on transport policy. Its purpose is to ensure that the transport system helps New Zealand thrive. The ministry’s main priorities are to support economic growth and productivity, deliver better value for money, and improve road safety.

Peter Mersi is the chief executive and Secretary for Transport. He replaced Martin Matthews in July 2016.

Financial performance

The ministry is funded through Vote Transport. In 2015/16, its total revenue was $32.9 million and its total expenditure was $32.5 million. This resulted in a surplus of $375,000, an increase on the 2014/15 surplus of $20,000.

New Zealand Transport Agency

The purpose of the New Zealand Transport Agency (NZTA) is to create transport solutions for a thriving New Zealand. It plans and invests in land transport, and manages the State highway network. It also provides access to, and regulates the use of, the land transport system.

Financial performance

Most of NZTA’s revenue is from the National Land Transport Fund (NLTF). In 2015/16, its total revenue was $2.46 billion and its total expenditure was $2.42 billion. This resulted in a surplus of $39.5 million, a decrease from the 2014/15 surplus of $59.738 million.

Shared outcomes for the New Zealand transport system

The ministry and NZTA have shared objectives for the transport sector and shared long-term outcomes for managing future transport pressures. Their four desired outcomes are for the transport sector to be:

- effective, by moving people and freight where they need to be on time
efficient, by delivering the necessary infrastructure and services to the correct level at the best cost

- safe and responsible, by reducing the harms from transport

- resilient, by meeting future needs and enduring shocks.

We heard from the ministry and NZTA at a joint hearing on 9 March 2017, where we discussed the following issues.

**Part C: Other issues**

**Working with KiwiRail**

NZTA has established a joint working relationship with KiwiRail. They are currently progressing several programme business cases that consider solutions for inter-regional routes in rail and road.

Some of us note that it is in KiwiRail's interest as a business to put more freight on rail. We asked how the ministry and NZTA manage this complexity to get the best value for the New Zealand taxpayer. NZTA told us that it does not consider KiwiRail’s commercial objective as part of the key criteria in the planning process. Rather, it considers what key outcomes are needed for residents, travellers, communities, and businesses.

**Improvements to the State Highway 2 network**

NZTA and KiwiRail are developing a business case on the State Highway 2 network in Wairarapa. The programme business case has identified several road and rail improvements that would, ideally, be done at the same time.

Decisions on funding are made after the programme business case has identified the best solution. There are various funding options, including the NLTF, local councils, central government, and KiwiRail.

We asked whether the improvements to the State Highway 2 network could be funded from the NLTF if improving the rail network could improve the functioning of the State highway network. NZTA told us that it can obviously fund certain elements from the NLTF, such as operating expenses and certain infrastructure such as passenger amenities. Below-track infrastructure cannot be funded out of the NLTF. NZTA does not put any money into freight operations and is unlikely to do so. However, there might be some subsidy for passenger services along State Highway 2.

**Transport projects in Auckland**

**Ramp signals for Waterview Tunnel**

The Waterview Tunnel, which is part of the motorway ring route around Auckland City, is scheduled to open in April 2017. Ramp signals will be used to help regulate the number of cars entering the tunnel when there is congestion.

We asked whether the ramp signals at the entrance to the Waterview Tunnel were planned when the project was designed. NZTA understands that ramp signals were not part of the original design and were added to the design “a couple of years ago”.

NZTA said that, with projects of this size, more-detailed analysis of the operating environment happens as the project progresses. The decision was made to add ramp signals because they were needed for demand management.
Some of us do not consider ramp signals to be a form of demand management because they affect only how a car enters a motorway rather than the decision to use a car. NZTA told us that a person’s decisions on their transport route or mode of transport depend on how they expect the experience to be. Adding different incentives to the network leads to different decisions.

We asked whether the ramp signals aim to discourage people from using the tunnel. NZTA said that ramp signals, or any other demand management tool, aim to optimise the use of the whole network, not just the tunnel.

**East–West Link**

The East–West Link project will construct a four-lane road to connect State Highway 20 in Onehunga with State Highway 1 in Mt Wellington. The project also includes improvements to State Highway 1 to improve connections to East Tamaki. The project proposal is now with the Environmental Protection Authority’s Board of Inquiry. Submissions are being sought from the public and stakeholders.

NZTA told us that it has worked closely with the local community, particularly in Onehunga, on the project. It has also worked closely with iwi because this project will improve the water quality of the harbour.

We asked how this project fits with NZTA’s demand-management and whole-of-network approaches. NZTA told us that the East–West Link provides a vital link between State Highway 1 and State Highway 20 and to the industrial areas of Onehunga and Penrose.

**AMETI Project**

The Eastern Busway, part of the Auckland Manukau Eastern Transport Initiative (AMETI), is a group of projects in south-east Auckland that will improve roads and create an urban busway. Some of us are concerned about plans to reduce the number of car lanes on the Pakuranga Highway and Lagoon Drive to create dedicated bus lanes.

We asked NZTA to provide an example of any comparable city in the world where the solution to a congestion problem was reducing the number of car lanes. NZTA told us that New Zealand cities can best be compared with Australian cities. It said that Brisbane and Sydney have reduced the number of car lanes to provide bus lanes. Other international examples include the Cleveland bus lane in the United States, where an urban arterial roadway was reduced from four traffic lanes to two, and the London Bus initiative and Red Route Network in the United Kingdom, where general traffic lanes were converted into bus lanes.

**Government Policy Statement**

The Government Policy Statement on Land Transport (GPS) outlines the Government’s priorities for expenditure from the NLTF for the next 10 years. The ministry has released the draft 2018/19–2027/28 GPS for comment. It plans to release the final GPS in 2017/18. We note that the draft GPS looks very similar to the previous GPS, with most of the funding for new infrastructure investment allocated to new State highway improvements.

The Auckland Transport Alignment Project (ATAP) sets out a clear direction for developing Auckland’s transport system during the next 30 years. We note that the draft GPS has no new money for investment in new public transport infrastructure. We asked what would happen if the ATAP indicates that public transport options should be funded
to reduce congestion in Auckland. The ministry told us that there is a placeholder for funding requirements for ATAP. This is because the Government and Auckland Council are still discussing options. The ministry is unable to predict what will happen because those decisions are being worked through. The ministry does not expect the architecture of the GPS to change as a result of the ATAP decisions, but it is possible that relative priorities could change.

**Using technology for demand management**

We asked what role technology would play in demand management in the next 3 to 10 years. NZTA told us that it is focused on using data and information to consider different types of mobility, such as shared mobility and mobility as a service. It is exploring how it can provide services in a different way—for example, by providing a platform where people can purchase travel for all different modes in a joined-up way.

NZTA believes there is huge potential to use ride-sharing platforms to increase the number of ride sharers. This is important in Auckland where it takes years to deliver infrastructure projects. NZTA said that increasing the average car occupancy would improve congestion levels across Auckland’s transport system.

We look forward to hearing about the progress of this work.

**Funding for public transport**

We are interested in public transport options in other rapidly growing New Zealand cities, besides Auckland. To develop the next NLTP, NZTA will soon engage with each region about what they consider to be their key transport challenges and priorities. This is an important part of the planning and funding process because the NLTP must take account of the Regional Land Transport Plans.

We asked whether NZTA had received any proposals or queries about light rail in other cities. NZTA was unaware of any proposals for light rail. As for studies about light rail, it is aware only of one in Wellington.

NZTA considers that it has a balanced approach to all transport modes within the framework it operates. It does not fund maritime or coastal shipping, but can fund passenger ferry services. NZTA’s approach focuses more on outcomes than on particular modes of transport.

**Smart motorway**

New Zealand’s first “smart motorway” opened in Wellington in 2016. It aims to reduce congestion by lowering the speed limit during busy times, allowing vehicles to travel closer to each other. This means that more vehicles can fit on the road.

NZTA told us that anecdotal evidence indicates that the smart motorway has improved traffic flows in particular parts of the peaks. NZTA is doing a formal before-and-after project on the effect of the motorway. It agreed to provide us with the data when the project is completed. We look forward to seeing the results.

**Social behaviour link to congestion**

We asked whether the ministry has any campaigns about the effect of social behaviour on congestion, such as drivers not letting other people into their lane. Although the ministry does not have an active research programme on changing social behaviour, it provides
signs that remind people to “merge like a zip”. It suggested that the smart motorway is a tool to encourage people to change their behaviour.

**Network Outcome Contract holders**

NZTA collects annual data about the road network to determine the ongoing maintenance and renewal plan. Holders of a Network Outcome Contract (NOC) are roading contractors who prepare maintenance and renewal plans, as agreed by NZTA.

The NOC incentivises holders to optimise the performance of the network and keep the Road Assessment and Maintenance Management database updated with the correct data. NOC holders are held accountable for not achieving their performance targets.

NZTA ensures that NOC holders achieve their performance targets through an ongoing assessment programme. This involves a crew of asset managers travelling to different parts of the network to record and check site-specific data. NZTA works with NOC holders when it finds examples of unsatisfactory performance.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the Ministry of Transport and the New Zealand Transport Agency. We heard evidence from the ministry and NZTA, and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Hon David Bennett
Peeni Henare (until 22 March 2017)
Raymond Huo (from 22 March 2017)
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Dr Parmjeet Parmar
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Ministry of Transport, Responses to questions, received 22 January 2017.
Ministry of Transport, Responses to post-hearing questions, received 22 March 2017.
New Zealand Transport Agency, Responses to questions, received 28 February 2017.
New Zealand Transport Agency, Responses to post-hearing questions, received 22 March 2017.
Organisation briefing paper, prepared by committee staff, dated 7 March 2017.
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Appendix 5
New Zealand Post Limited

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of New Zealand Post Limited, and recommends that the House take note of its report.

Introduction
New Zealand Post Limited (NZ Post) is a large State-owned enterprise providing postal, banking, courier, logistics, and other services. It consists of two business clusters: delivery services and financial services.

The chief executive is Brian Roche. Jane Taylor took over as chairperson from November 2016 following the retirement of Sir Michael Cullen.

Financial and operating performance
We heard that NZ Post continues to undergo large-scale changes across its business. Demand for its “legacy” letter mail service is declining, but it sees real growth opportunities in parcel mail, and “huge” opportunities in Kiwibank. It considers that digital services will be at the heart of future growth for both its postal and banking operations.

In 2015/16 NZ Post achieved an after-tax profit of $141 million, down 1.4 percent from the previous year. Both revenue and expenses fell by 6.6 percent. Total operating revenue during the period was $1,485 million and total operating expenses were $1,335 million. Although operating profit also declined by more than 6 percent, a gain on the sale of an Australian subsidiary helped to offset this for its final profit result.

As in the previous year, the Office of the Auditor-General rated NZ Post’s management control environment as “very good” and its financial information systems and controls as “good”. The auditors have made several recommendations for improvements. We hope to see the deficiencies corrected by the time of our next review.

Developments with Kiwibank
Partial sale of Kiwibank and new investment by shareholders
Early last year NZ Post announced its intention to sell 45 percent of its shares in Kiwi Group Holdings (KGH)—the holding company for the financial services group that includes Kiwibank—to the New Zealand Superannuation Fund and the Accident Compensation Corporation (ACC). The sale of a 47 percent share was concluded in October 2016, for a price of $493.5 million.

NZ Post told us it sees only advantages from having new shareholders. It believes it had taken Kiwibank as far as it could as sole owner, and that the combined resources of its new investors “dwarfed” anything it could do with Kiwibank by itself.

We asked how the sale price compared with the expected valuation range, and were told that while the final price might have seemed at the low end, this reflected the passage of time since the valuation was done, and some decline in Kiwibank’s performance in the
intervening six months. NZ Post believes it has gained good value from the $400 million it has invested in the past in Kiwibank. As well as receiving the proceeds from the sale of a 47 percent share, NZ Post still has an asset in Kiwibank that is worth over $695 million. It believes its $400 million investment was justified as the partial sale has made funds available to repay some debt, pay a special dividend to the Crown, and invest in its future business.

We enquired whether NZ Post had asked the Government for a capital injection as an alternative to selling part of Kiwibank. We were told that NZ Post did not do that because while that type of intervention may have given “short term relief” it would have been insufficient to address the long-term sustainability issues that it was facing.

Growth opportunities for Kiwibank in the future

NZ Post said it believes Kiwibank’s greatest assets are its market presence in communities and its strong brand. It sees future opportunities for the bank in small business, personal banking, wealth management, and asset financing. Its board is currently undergoing a “strategic reset” and all shareholders want to take advantages of the capital now available to help build a “digital bank of the future”.

Overseas banking opportunities for Kiwibank

In the light of a recent trade delegation to Iran, we asked whether Kiwibank was exploring opportunities overseas in countries like Iran, and whether there were any barriers to doing so. NZ Post told us that it is generally free to make commercial decisions, although it must comply with anti-money-laundering legislation wherever it operates. At this stage it does not foresee Kiwibank operating outside New Zealand. However, it noted that international partners are used to help operations within New Zealand.

The future of mail in New Zealand

The growth of parcel mail and decline of letter mail

NZ Post told us that mail is no longer the main driver of its business. About 18 months ago its revenue from parcels exceeded revenue from letter mail for the first time. It reported that for the year under review, letter mail revenue was $322 million and parcel revenue was $417 million; the fall in letter revenue was nearly twice as large as the growth in parcel revenue.

Given this, we asked if NZ Post has any plans to phase out letter mail services. We were told that NZ Post has “no intention” of phasing out letter mail, and that it is committed to letters as a product as long as its customers need it, which it expects to be the case for “many, many years”.

We also asked if the drop in letter mail was a result of the changes in the number of delivery days, issues at sorting centres, and diminished service generally. NZ Post stated that the volume decline was similar to its competitors, and that the letter mail product was in decline, not NZ Post. It acknowledged there had been some issues but feels confident it has addressed them and won back some volume share. It recognises that the market is extremely competitive, and knows that its customers value price, standards, and quality. NZ Post believes its future will be built around a parcel product.
The use of new technology and new products

NZ Post told us it is committed to utilising new technologies. It has invested in 500 new electric vehicles, which it is continuing to roll out. Electric vehicles are currently being used in 74 of 227 planned locations nationwide. This is one of the largest electric fleets in the country. It is also incorporating new sorting technology at a new processing facility in Christchurch. These are important steps because the use of technology can improve both service standards and quality, and continue to increase efficiency.

We asked for an update on recent initiatives. We were told that while NZ Post was proud of the YouShop initiative, it is a few years old and will need a “makeover” shortly. New Zealand Post said it continues to innovate with initiatives like Bring It, which allows building materials to be delivered to the customer.

NZ Post acknowledged that it needs to “innovate at our core”. One way it does this is by constantly monitoring international ideas and innovations—at companies like Uber, Google, Amazon, and Alibaba—and trying to take the best ideas and make them work in a New Zealand context. It also draws on local ideas, such as from Air New Zealand and the financial services sector. It knows that whatever it does has to represent the New Zealand way of doing things.

Issues at local post branches

Counter service at the Karitane branch

We asked about a possible change from counter postal services to rural delivery in Karitane. NZ Post confirmed that the counter postal service would remain available to those who want it as long as a postal centre remains to provide the service. It said that about half of its customers in Karitane have expressed interest in moving to a rural delivery service. NZ Post also said that delivery problems at the Karitane branch had been resolved, although errors could be made in addressing mail, and in deliveries by competitors.

Expansion of the New Lynn branch

We asked why the New Lynn post office had not been expanded. NZ Post told us that instead of expanding the branch, it was focused on improving services. This includes increasing the number of staff, reconfiguring staff rosters, bringing in a new manager, and adding a concierge help desk. It pointed out that all local branches are under pressure, both for it and its competitors.
Appendix

Committee procedure
We met on 8 December 2016, 9 February 2017 and 9 March 2017 to consider the annual review of New Zealand Post Limited. We heard evidence from New Zealand Post and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Kris Faafoi
Clare Curran
Gareth Hughes
Brett Hudson
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Office of the Auditor-General, Briefing on New Zealand Post Limited, received 6 December 2016.
2015/16 Annual review of the New Zealand Productivity Commission

Report of the Commerce Committee

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Appendix 6
New Zealand Productivity Commission

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Productivity Commission, and recommends that the House take note of its report.

Introduction

The New Zealand Productivity Commission is an independent Crown entity established in April 2011. The commission undertakes in-depth inquiries about productivity-related matters, carries out productivity-related research, and promotes public understanding of productivity-related issues.

The board comprises three commissioners, and reports to the Minister of Finance. As well as being responsible for governance, the commissioners are directly involved in its work and wider consultation, and oversee the quality of the content it produces, such as inquiry reports.

Total revenue in 2015/16 was $5.05 million, with expenses totalling $4.9 million, leaving a small surplus. These results were similar to previous years.

The Office of the Auditor-General rated the commission’s management control environment and financial information systems and controls as “very good”. Its performance information and associated systems and controls were rated as “good”; we hope to see the commission act on the office’s recommendations for improvements.

The commission’s inquiries

Much of the commission’s work focuses on inquiries into topics referred to it by the Government. Its findings and recommendations inform government decision-making. In 2015/16, the commission released two inquiry reports, “More effective social services” and “Using land for housing”. It also worked on inquiries into urban planning, and new models of tertiary education, releasing draft reports on these topics.

The role of the commission

We asked the commission whether it risks being perceived as a “glorified think tank”, and would prefer a greater role in setting its work agenda, and to be involved in implementing the recommendations it makes. The commission said it believes its model, based on the Australian approach, is balanced and robust. Potential inquiry topics can be suggested by the commission, as well as by members of Parliament and the public; the Treasury coordinates the selection process. Final decisions rest with Ministers, which the commission considers appropriate, so that Ministers have “skin in the game”.

The commission believes that, so far, it has struck the right balance in its recommendations between pushing the boundaries with Ministers, while not becoming a nuisance. It says this has helped it to stay relevant in its advice to the Government.
Government responses to report recommendations

We noted that the Government has yet to respond to two of the commission’s inquiries; one dating from mid-2014 (“Boosting productivity in the services sector”). The commission indicated that it was not concerned, noting that the Government is under no obligation to implement its recommendations, nor to respond to its final reports. The commission welcomed the fact that the Government had chosen to issue formal responses to the majority of its inquiry reports, spelling out which recommendations it agrees with and will implement. It added that its services sector report had been influential within relevant agencies, even though it was, by its nature, less open to specific policy responses.

Future inquiries

We heard that the process for selecting future inquiry topics is under way. We understand that climate change and sustainability is one possible topic. The commission said it would be keen to undertake work in this area.

We commend the commission on the work it has been doing, and will follow its future reporting with interest.

Collaboration in research

In addition to undertaking inquiries on topics suggested by the Government, the commission initiates its own independent research. It also works through the Productivity Hub, a partnership with several government agencies and non-government groups. Through the work of the hub, the commission said it is able to build up a valuable body of research.

Research in recent years has centred on the longitudinal business database. The commission hopes to identify why some businesses perform well and some do not, and from this to draw conclusions for improving productivity.

Evaluating New Zealand’s productivity performance

The commission has continued to research and consult about the causes of New Zealand’s disappointing productivity performance. In 2016/17 it intends to publish a “productivity narrative” assessing the challenges of productivity in New Zealand. It is hoped that the narrative will stimulate public discussion and guide future research.

We discussed the “productivity paradox”: that New Zealand’s productivity remains low despite a strong institutional setting, with public institutions that are well governed and non-corrupt. Research carried out by the Organisation for Economic Co-operation and Development (OECD) suggests that New Zealand’s productivity performance should be 20 percent above the international average, based on the quality of its institutions; instead, it falls 20 percent below.

The commission noted that a downturn in productivity is not unique to New Zealand, but has been experienced internationally since the global financial crisis. The reasons are still unclear: it could be a matter of mis-measurement, but it could also be that rapid advances in technology have not caused a corresponding enhancement of productivity.

In New Zealand’s case, the commission emphasised two particular factors: the “tyranny of distance”, and the fact that “scale matters a lot” for productivity. It noted that, ironically, even though technology such as the internet and high-speed transport has the ability to reduce distance and time, these technologies have
actually heightened New Zealand’s isolation, as they are of more benefit to businesses engaged in multi-national supply chains.

The areas New Zealand is engaged in are also relevant. Although New Zealand adds value to products in sectors such as dairy and timber, the bigger-value sectors are those where intellectual property, involving major research and development, plays a large role. In this respect New Zealand is behind the game.

Trading out of a very small domestic market with little competition, to a very large market overseas is increasingly challenging, the commission said. This is especially true because of the risks associated with trading overseas, such as exchange rates. Even the Australian market is proving tough for New Zealand businesses to enter.

Another contributor to New Zealand’s low productivity is its growing services sector, which represents more than 70 per cent of GDP. The services sector employs a lot of people, but the work tends to be lower skilled and waged, and does not contribute as much as the “high-tech sector” to productivity.

We wish the commission well in its efforts to unravel the challenges facing New Zealand’s productivity performance.

**Regulatory institutions and practices**

We asked the commission about the role New Zealand’s regulatory regime plays in its productivity performance. In a report dated July 2014, the commission indicated that New Zealand’s regulatory institutions and practices needed much improvement. The commission recalled that its report had highlighted the relatively light resourcing of Parliament’s Regulations Review Committee, and also problems in the regulatory impact assessment process for proposed legislation. It noted that these issues remain to be addressed.

**Inquiry into housing affordability**

In 2012, the commission reported on an inquiry concerning housing affordability in New Zealand. Of the 33 recommendations, 23 were agreed to in full or in principle by the Government. We asked whether more action on the recommendations is needed, since the issue of housing affordability has yet to be resolved.

The commission said that much has been done, but the key issue is to “crank up supply”. The pace of construction has increased, but not as rapidly as the commission had hoped. Increasing the productivity of the construction sector is therefore a key factor in housing affordability. One issue identified in the 2012 report was that the building sector was in many respects a cottage industry, with each new house approached individually, and about 20 percent of the cost going into adjustments to get it right.

The commission emphasised that scale matters greatly. If the rate of building houses in New Zealand is to increase, the supply chain needs to be set up to build large numbers of houses. We were informed that New Zealand “cannot just turn on a whole lot of builders and building firms” to build a large number of affordable houses, as the supply chain is not set up for this.

The commission’s current work is also looking at the incentives on councils to provide the infrastructure necessary to build houses in fast-growing areas. Building infrastructure quickly is a central factor in increasing productivity in the housing sector, it says. At
present, existing ratepayers have to pay for this expanded infrastructure. The commission is exploring how such challenges associated with expansion could be addressed.

**Draft report on tertiary education**

In September 2016, the commission released a draft report on “New models of tertiary education”. The report considered how well-placed the New Zealand tertiary education system is to respond to trends in technology, internationalism, population, tuition costs, and the demand for skills.

The commission found that the current student loan system is not well prepared to respond to demographic change, different pressures in the international market, or technological changes. It also found that the current student loan system favours more well-off students. This affects productivity because more students will not have the financial support to attend tertiary education and be employed in high-tech sectors.

The report concluded that the student loan system would benefit by being less regulated and more open so it could be more responsive to changing trends in tertiary education. The commission recommended that universities should have more flexibility in setting fees. It recognised that this would have implications for the cost to the Government of the interest-free student loan scheme. The commission recommended that the Government should stop making student loans interest-free.

We pointed out that this recommendation differed significantly from the current approach to student loans. The commission responded that it is aware that not all its recommendations will be accepted, but believes it is still worth presenting the ideas.
Appendix

Committee procedure
We met on 1 December 2016 and 9 February 2017 to consider the annual review of the New Zealand Productivity Commission. We heard evidence from the chair of the commission and its chief executive, and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
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New Zealand Trade and Enterprise

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of New Zealand Trade and Enterprise and recommends that the House take note of its report.

Introduction

New Zealand Trade and Enterprise (NZTE) is a Crown agent established under the New Zealand Trade and Enterprise Act 2003. NZTE is the Government’s business development agency. It focuses on growing New Zealand businesses in international markets and works in partnership with NZ Inc. agencies across the public and private sectors to foster economic development.

The chief executive is Peter Chrisp, and the chairperson is Andrew Ferrier.

Financial and service performance

In 2015/16, NZTE generated revenue of $201.912 million. Its total expenses were $207.368 million. Its deficit after tax of $5.413 million can be mainly attributed to the reduced value of the New Zealand dollar and lower average foreign exchange rates.

The Auditor-General assessed NZTE’s financial information systems and controls as very good, and its performance information systems and associated controls as good. We are interested to learn more about how NZTE collects performance information and measures the value it adds to our economy.

The management control environment was assessed as good, with no change from 2014/15. We expect this rating to improve as a result of the procurement action plan now in place.

Export growth

NZTE’s main goal is to achieve the Government’s Business Growth Agenda (BGA) target of increasing exports from 30 percent to 40 percent of GDP by 2025. We heard that two objectives drive the BGA: internationalisation and diversification.

In 2014, the Government committed an additional $69 million over four years as part of the BGA to help NZTE further contribute to the value-added part of the economy. NZTE reports that this funding has allowed it to boost the number of “high-intensity customers”, that is, knowledge-intensive, value-adding businesses with strong ambitions for growth and the ability to compete internationally. It has also advanced its presence in several economies, including Australia, Papua New Guinea, Colombia, the West Coast of the USA, China, Iran, and the Gulf Co-operation Council.

We asked why export performance relative to GDP is not improving proportionately to this funding, and whether this failure could be partly attributed to NZTE. The agency told us that it is a “journey” to get to the 40 percent target. It said there is a “slight dilemma with the target” as it is a relative number between the growth rate of the domestic economy (which is currently fairly strong) and the international-facing economy.
Vulnerability to global shocks

Another constraint on export growth is that the last year has seen significant political changes in at least two major markets for New Zealand. These are the proposed withdrawal of the United Kingdom from the European Union and the change in administration in the USA. NZTE told us that “the forces of protectionism and exclusionism are alive and well” and “in turbulent global markets, our small companies are easily buffeted”. However, NZTE suggested that notwithstanding some short-term economic bumps, there would be a return to a sensible global trade situation over the medium to long term.

Free trade agreements

Generally we support NZTE’s strategy of diversification and value-added business. We asked if New Zealand should be seeking different ways to enter export markets rather than free trade agreements (FTAs). NZTE said that New Zealand must have access to markets, as it is challenging for companies to grow due to the country’s size and location. For this reason, NZTE welcomes FTAs and argues that they bring benefits far beyond what is in the tariff schedule, including people-to-people links.

Working with Focus 700 companies

NZTE works intensively with 705 small and medium-sized companies (defined as earning less than $500 million in international revenue). They are known as its high-intensity or “Focus 700” customers. We heard that this is up from 500 of these companies in 2014. NZTE reported that recent growth has been weighted towards companies involved in information and technology, high-value food and beverages, and specialised manufacturing.

NZTE estimates that in the year under review it engaged with $1.5 billion in export deals, an increase of $400 million on the previous year. Nevertheless, we noted that the reported growth of these companies seems at odds with declining export growth as a proportion of GDP. We were told that changes in global commodity prices affected some of the very big companies and this tended to “drown out” growth in other areas, such as the digital economy.

We also asked what NZTE is doing to support Māori businesses. At present, 44 of the Focus 700 companies (6.2 percent) are Māori. NZTE told us that this is an area for growth and it is dedicated to improving its internal capability to work with Māori customers. It is coordinating with Te Puni Kōkiri, MBIE (the Ministry of Business, Innovation and Employment), and its network of regional business partners to improve services to Māori small and medium enterprises.

Advocacy for companies on trade issues

We asked NZTE for its view on the Trade (Anti-dumping and Countervailing Duties) Amendment Bill, which seeks to introduce a bounded public interest test into New Zealand’s anti-dumping and countervailing duties regime. This would mean the possible non-application of World Trade Organisation rules, if it was considered that dumping of goods in the New Zealand market would not have a harmful effect. In particular, we asked whether NZTE would play a role in assessing whether the sale of cheap goods would harm New Zealand companies.
NZTE said it does not believe it needs to act as an advocate for companies in this respect. It noted that MBIE, through its small business group, along with other industry groups, would be better placed to liaise with the market to gauge the effects of dumping.

Investment in the tourism industry

The tourism industry in New Zealand continues to grow. Research by NZTE indicates that there will be a shortfall of 4,500 hotel rooms across major cities by 2025. We heard that NZTE has teamed up with Tourism New Zealand and MBIE under “Project Palace” to accelerate investment in New Zealand’s hotel infrastructure. We are pleased to learn that four accommodation investments are already in the pipeline, with one $70 million investment recently concluded.

Sustainability

We asked about sustainability, and how NZTE could leverage off “the New Zealand story” to showcase the country’s unique value and premium products. NZTE said that New Zealand companies already tend to factor “green-thinking” and sustainability into their business requirements and decisions. NZTE considers that it is important to understand what matters to consumers, rather than assuming they all want high-end, purely organic goods.

Health and safety

NZTE reports that it has increased its focus on health and safety. We asked about the hazards it has identified in its operations. They include security, disasters, travel, and other local hazards. NZTE said that international travel in itself is a health and safety concern for an agency spread across 41 locations. We are pleased that NZTE is recognising hazards and challenges, as part of its drive for better performance and becoming an employer of choice.
Appendix

Committee procedure
We met on 9 February and 9 March 2017 to consider the annual review of New Zealand Trade and Enterprise. We heard evidence from New Zealand Trade and Enterprise, and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received
The documents that we received as advice and evidence for this annual review, and the transcript of the hearing, are available on the Parliament website, www.parliament.nz. They are listed below:


New Zealand Trade and Enterprise, Responses to written questions 1 – 102, received 7 February 2017.

New Zealand Trade and Enterprise, Responses to written questions supplement 1, received 7 February 2017.

New Zealand Trade and Enterprise, Responses to written questions 103 –108, received 2 March 2017.
2015/16 Annual review of Ōtākaro Limited

Report of the Finance and Expenditure Committee

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Christchurch convention centre update 3
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Appendix B 5
Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of Ōtākaro Limited and recommends that the House take note of its report.

Introduction

Ōtākaro took over responsibility for some of the functions previously carried out by the Canterbury Earthquake Recovery Authority (CERA) in April 2016. It is required to deliver defined anchor projects and a land divestment programme that is consistent with the Christchurch Central Recovery Plan.

Ōtākaro is a Crown company set up under Schedule 4A of the Public Finance Act 2004. Its shareholders are the Minister of Finance and the Minister supporting Greater Christchurch Regeneration.

Financial results and the 2015/16 audit

In 2015/16 Ōtākaro had total revenue of $29.584 million and total expenditure of $17.032 million. As of June 2016, it had total assets valued at $309.756 million, and total liabilities of $220.35 million.

The Auditor-General assessed Ōtākaro’s management control environment and its financial information systems and controls as “needs improvement”. It recommended that major improvements be made at the earliest reasonable opportunity. The Auditor-General noted however that this grading should be viewed in the context of the company only having been in existence from February to 30 June 2016.

We will be interested at future annual reviews in seeing the progress Ōtākaro has made in implementing the Auditor-General’s recommended improvements.

Potential employee conflict of interest

In late January 2017, two Ōtākaro employees were stood down from their roles. The State Services Commission (SSC) is investigating allegations that they had improperly tried to facilitate a Christchurch property deal through a private company that they owned while they were employed by CERA.

We were told that the matter had come to Ōtākaro’s attention in late 2016, and it was treated initially as an internal employment matter. Ōtākaro’s chair told us the company had no knowledge of the allegations that related to the employees’ actions at CERA at that time. Ōtākaro has since clarified in writing that it became aware of the issue in August 2016 during a review of the individuals’ compliance with company polices. The board was made aware of an employment issue involving the two individuals in early September.

The employees were engaged in the property development team and dealt with potential developers who invested in property. They also assisted in divesting Crown land. Ōtākaro informed us that it had investigated all of the transactions that the two employees had been involved with, and had not discovered any cause for concern. However, it would fully
cooperate with the SSC investigation. Ōtākaro told us that it now requires all employees to declare any interest. These are referred to management to decide whether a conflict or perceived conflict exists.

We asked when the board had informed the Minister supporting Greater Christchurch Regeneration of the potential conflict of interest, given that the matter had been discussed by the board in December 2016. The chair and chief executive told us that they had made no approaches to the Minister, or his office, until the allegations became public. At that stage they advised the Minister of the work Ōtākaro had undertaken on the matter.

At a later stage in the hearing, the chairman and chief executive refused to answer further questions about whether the board had communicated with the Minister or his office about the matter until the investigation had been completed.

**Christchurch convention centre update**

In response to questions about the estimated cost of the centre, Ōtākaro noted that $284 million was the amount announced in 2014, when Plenary Conventions was confirmed as the preferred developer of the centre. However, in June 2016 the parties had agreed that Plenary Conventions would not continue to work on the project. Ōtākaro said it could not provide us with a revised cost until it was in a position to award the main works contract.

Ōtākaro told us it was retaining the design of the convention centre as it was set out in the original business case, although it had identified some issues that have caused a minor revision of the design.

The convention centre is currently conceived as a Crown facility, but its ownership will depend on how investment and ownership discussions progress.

We were informed that Ōtākaro has spent $8.6 million on the convention centre to date.

**Transfer of assets to the Christchurch City Council**

Ōtākaro works with the Christchurch City Council to build public facilities, such as the Victoria Square restoration and the Avon River Precinct, to the design standards that the council requires. We asked about the process Ōtākaro follows when it transfers assets to the council.

We were told that, once a project nears completion, the council is given an opportunity to carry out due diligence on the design standards before an asset is transferred. The council ensures that it has all the required design plans to carry out long term maintenance. As a final step, Ōtākaro reviews any outstanding contractual issues before final completion, and then transfers the asset.
Appendix A

Committee procedure
We met on 8 February and 8 March 2017 to consider the annual review of Ōtākaro Limited. We heard evidence from Ōtākaro and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw
Michael Wood

Eugenie Sage replaced James Shaw for this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Ōtākaro Limited, Responses to committee questions 1–123.
Ōtākaro Limited, Clarification of Annual review comments.
Appendix B

Transcript of hearing from 8 February 2017

Members

Chris Bishop (Chairperson)
Alastair Scott (Deputy Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Jami-Lee Ross
Eugenie Sage
David Seymour
Fletcher Tabuteau
Michael Wood
Dr Megan Woods

Witnesses

Ōtākaro Ltd

Ross Butler, Chairman
Albert Brantley, Chief Executive

Bishop Welcome to the committee. I should have alerted people before that we are recording and transcribing the hearings. Sorry about that, members. We’ve given you half an hour. We’re running a bit over time, obviously, so we’re in your hands. Maybe if you want to make some remarks to start us off—you’ve got a presentation as well, I think.

Butler Kia ora, Chair and committee. Thanks for the opportunity to engage today. I’m Ross Butler; I’m the chair for Ōtākaro and Albert Brantley is the chief executive of the company. So we’ve provided information and responses to the 102 questions that were submitted to the company. As we are a new Crown company, we thought it was appropriate that we might just do a quick run through the company. We’ve been in operation—we were formed in February last year and work was under way from late April last year. So we’ve got a brief presentation. You’ve been given copies of that as well. The presentation covers the purpose, the values, the projects that we’re undertaking, and the land divestment activities of Ōtākaro.

The purpose of the company is to add value to the anchor projects in Christchurch, and the Crown land, in a manner that balances good commercial outcomes against the Crown’s regeneration objectives, and it supports the Crown’s exit, over time, on favourable terms. Ōtākaro itself, was the original name for what we now know as the Avon River. We’re a Crown company, a schedule 4A company under the Public Finance Act; as I say, incorporated February last year and we started in late April last year.
We have an independent board of four, and we provide strategic direction to the company. The company’s very lean; we’re very commercial, and we are very property and project management focused. We are competent and have considerable skills within the board and within management around property and project management. We make no apology for being commercial, but we’re also cognisant of the fact that we are a Crown entity.

We’ve got two major teams within the company: the project development team, which is responsible for the defined anchor projects that I’ll run through in a moment, and the strategy and opportunities team that manages land divestment in both the residential red zone and the Christchurch CBD. We have a small corporate support team that backs up those main activities of the company. Underpinning the company’s purpose are three values. They’re very simple, so: keep it simple, make it happen, and do what’s right.

We’ve produced our first annual report that covered the period from inception until June last year. We have a statement of intent, and we have a statement of performance expectations. Now, as you might imagine, we’ve got agreed budgets and plans, and we’ve got access to capital and operating funds to enable us to get on with our job. So it’s a very—even though we are very commercial, very property, and very project management focused, we are also mindful that it’s all about people. It’s a place where people want to live, to work, to visit. So the projects that we’re managing are more than just steel and concrete and plants. Progress is very clear throughout the city, and I encourage the members of the committee, who perhaps may not have been to Christchurch in recent months, just to walk around.

In that pack that we’ve given you, there’s a page that refers to the projects that are the Ōtākaro-led projects, and those other projects where we have involvement. The specific projects that the company is leading include the earthquake memorial; the new public spaces around gardens, parks, gathering spaces, and parks; new public facilities such as the convention centre and the Metro Sports Facility; the East Frame, that is a mixture of 900 residential apartments and public space; and improvements to the traffic network of Christchurch. I’ll ask Albert Brantley, our chief executive, now just to run through in a little bit of detail some of those projects.

Brantley

Thank you Ross and, appreciating the committee’s got limited time, I’ll go through this very quickly. Certainly one of the key projects we’re working on is the earthquake memorial. That is due to commission this month on the sixth anniversary of the 2011 earthquake. That will have a public ceremony on the 22nd, but that will be preceded by a private ceremony with the families the evening before. We’re all concentrating on making sure that gets done on time. I can assure you I lose lots of sleep over that one.

The other significant project we’re making good progress on is the Metro Sports Facility, a joint project between the Crown and the city council. We have started site-enabling works on that site. We expect to be in a position to appoint the main works contractor and start construction this year, with anticipated completion in early 2020. I think anyone that’s been to Christchurch is well aware of the work that’s been going on, on the Avon
River precinct—considerable work in public space—and it is about bringing people back down to the river and engaging with the river.

There’s a list of various projects. You’ll see that many of them have already been completed and with the completion of the earthquake memorial, we’re certainly more than 60 to 70 percent completed on those river works. We did anticipate that we’ll let a contract for the remaining part of the Avon River. That will be the promenade, from the earthquake memorial back down toward Antigua Boat Sheds, and that northern section of the river up to Margaret Mahy Playground, and we will be letting a separate contract for Victoria Square renovation work—all of which we expect to get the bulk of works done this year with perhaps just a little bit of tidy-up work early in part of next year.

A couple of artworks—certainly major emphasis is on the convention centre. We’ve done the site remediation works—the asbestos removal on the site—we’re about to let a contract for gross earthworks, try to prepare the site so that we can award a contract and get the main work started in mid-year. It’s currently planned for completion in 2019—late 2019—and we’re reviewing the completion schedule for that as part of the baseline work that we’re doing for all of the projects.

On the East Frame, public works is well under way. That will be the third-largest public space in Christchurch. That’s anticipated for completion early next year. That work is going well ahead. We have managed to solidify schedules on starting of the first residential construction and we expect to break ground in March—late March, early April—with the first set of residences, and we’re working on trying to get the next two superlots released and get those under way this year as well.

South Frame is a strong emphasis for us—continuing to do the public realm work. Concentrating a lot in the northern end and in the southern end, we are continuing to work on land acquisition to be able to complete that and get that work under way. And then of course, anyone that’s driven in Christchurch is well aware of the activity that’s gone on in Durham and Manchester Streets as we work on that part of the accessible city programme that’s affiliated with the anchor projects.

As Ross has said, we are continuing to work on divestment of the Crown land, and just to give you an idea of how we’re looking at balancing commercial return to the Crown against regeneration outcomes, we use three recent transactions on the Duncan’s building on High Street, which is a key to actually unlock that part of High Street and get that activated again. Certainly the sale that we’ve arranged on the south-west retail precinct, which is earmarked for a farmers market development, adjacent to the Avon River and a retail precinct. And Calder Stewart is now under way on site works at the area just between the bus interchange and the justice precinct, which is earmarked for development of a major Hoyts Cinema
complex with quite a lot of public space with commercial and food outlet development as part of that.

Woods Thank you, and thank you very much for the presentation and for the written questions that you provided the committee too. They’re really useful. Not surprisingly, I want to turn to the written answer to question 40, which is about conflicts of interest, and that you have provided there. Now, I appreciate that this—a lot of what happened, happened in CERA, but I also do appreciate that the Project and Investment Management Ltd was still an operating concern when two of the employees transferred over to work with Ōtākaro at its inception. So, in question 40, you state that some interests were disclosed and discussed, when it comes to staff conflict of interest. Were these the conflicts of interest that have been discussed in the media and relating to Project and Investment Management Ltd?

Butler Perhaps Dr Woods, I’ll start with a response to that. We did anticipate that we would be asked questions such as this today, so just some general comments first. The companies came to light, late last year, when we were working through declarations of conflicts of interest. At that time, it was an internal employment matter. We had no oversight or knowledge of the allegations that related to CERA at that time. We appreciate the seriousness of the situation, and the reputational risk that it poses to the company, to the rebuild and regeneration of Christchurch, and to the Crown. We welcomed the investigation and are supporting it—the investigation being carried out by the State Services Commission—but because of the seriousness of the situation, it would not be appropriate to comment on the specifics at this time while the investigation is under way.

Woods So just continuing from that, when you say “late last year”, when, and was the Minister informed?

Brantley What we did is at the time of creation of Ōtākaro every employee was required to sign a statement that they had no conflicts of interest. As we continued to develop our operational policies in the company we became aware that there were some potential, perceived conflicts and we proceeded to address those as an employment matter. The timing of that—once again, we’ll need to work through with the investigation in terms of all of the detail. What we have done is that we have actually investigated all of the transactions that have taken place with these two individuals to make sure that we are comfortable that there has been no conflict in any of those transactions and, once again, as Ross said we are cooperating with the investigation as fully as we can.

Woods Was the Minister informed of this potential conflict?

Brantley In the employment matter—I certainly made my chair and the board aware of the employment matter. I don’t know if Ross has made the Minister’s—I
know that I have made no approach to the Minister’s office about an employment matter.

Woods  Did the board make the Minister aware of this?

Butler  Not on the employment matter, but as soon as the allegations became public then we certainly went back to the Minister and advised him of the previous work that we had undertaken.

Woods  What role within Ītākaro did Messrs Nikoloff and Gallagher fulfil?

Brantley  They were engaged within the property development team and they were interfacing with potential developers who were investors in property and working with us in divesting of the Crown land. As I said, because of the heightened awareness and public interest in the allegations that had been made, we have gone back and scrutinised all of the transactions that these individuals were involved with and we actually have uncovered nothing that gives us cause for concern, but once again we will cooperate and work with the investigation to the fullest extent possible.

Woods  I note in appendix 1 you give a full list of the contractors that Ītākaro has engaged. Can you confirm that Silverfin and Murray Cleverley are not involved in any of these independent contractors that Ītākaro has used?

Brantley  Let me just double-check the list. Certainly in looking at the list we see that we are aware of no involvement or no link that Silverfin or Mr Cleverley would have with any of these individuals.

Woods  Will you be investigating that further?

Brantley  We certainly will be doing that as part of the investigation, no doubt.

Cosgrove  How can you say—how can you give us an assurance if you haven’t investigated it?

Brantley  Well, at the present time we have no knowledge. We have looked at the activities that these individuals have been involved with. These consultants that are listed here are consultants that are working on the development projects, and looking at this list we see no one that is involved in any of the property transactions that an organisation like Silverfin would have been involved in. So, once again, these are all development contractors.

Woods  I think you will agree this is a very serious situation, which cuts to the core of what we expect from a public agency in this country. So will you be using this opportunity to look more broadly across your organisation than the investigation will in terms of perceived conflicts of interest? We have always known that a rebuild of the size of Christchurch and the amount of money that was being invested left open the potential for just this kind of conflict of interest and corruption to seep in. So is this something that you will be looking at more deeply within your organisation?

Brantley  One of the things we have done as part of that ongoing development of our own operational policies and operating control environment, we have moved from simply asking employees to make declarations of interest and no conflicts to actually requiring all employees to declare any interest and
then having those referred to executive management to allow the executive management to make a decision about whether there either are conflicts or perceived conflicts, and not leaving it necessarily to the individual employee. That process was nominated on the company’s internal website in November, and we are in the process of finalising that, and we’ll have all of those declarations of interest for all employees completed by February. As the chief executive, I’m asked to actually, under the policy, review each of those declarations—each review that has been done by the appropriate general manager—and have it countersigned off from myself as well to ensure that we see no conflict or any perceived conflict.

Woods Will this be a statutory declaration and will it also cover family members?

Brantley It’s been asked for any affiliation family members have, anything that may be perceived as any sort of conflict.

Cosgrove A stat dec, though—a statutory declaration?

Brantley It is an employee matter between us and the employee.

Cosgrove But, are they going to be asked to sign a statutory declaration or a non-statutory declaration?

Brantley I don’t have the authority as an employer to require the employees to sign a statutory declaration.

Cosgrove You don’t have to require, you could ask. If they refuse that would probably send a red flag.

Brantley Look, in all honesty, we view the thing that if we get the details, we have them declare all interest, we go through at executive level and at chief executive level, and just make sure that we have no perceived conflict or any real conflict—that that is the appropriate way to handle it as an employment matter.

Woods Just to follow up on the point that you made, Mr Butler, going back to question 40, you said that the employee conflict of interest issue was
discussed at a board level. Would this have been minuted and were these minutes sent to the Minister?

Butler? It wasn’t done in a formal board meeting. There was no minute and there was no formal document sent to the Minister.

Woods So if it wasn’t a formal board meeting, what was the circumstance where it was discussed?

Brantley The chief executive alerted me to the situation when he became aware that the two individuals were linked to a company that may have been—that was in existence at the time.

Woods Why was this not discussed in a formal board meeting?

Brantley It eventually was discussed, because—

Woods When?

Brantley At our last meeting, December meeting, and again in our first meeting of—sorry, our last meeting of 2016.

Woods So were the minutes of that December 2016 board meeting, where it was discussed, were they sent to the Minister?

Brantley No, the minutes of course are not sent. The minutes of each meeting are not sent to the Minister.

Cosgrove Ever?

Brantley No minutes of this company have been sent to the Minister.

Member It’s normal?

Member It would be quite unusual for that to happen.

Bayly Absolutely unusual. What a weird request.

Cosgrove So were the discussions at the board meeting communicated to the Minister and/or his officials and/or his office staff in any other way, shape, or form? If so, when and by whom?

Brantley Mr Cosgrove, while the investigation is under way—

Cosgrove With respect, sir, this has nothing to do with the investigation. You’ve just completed a line of questioning around your board meeting and the minutes—nothing to do with the investigation. A simple question—as you’ve said no minutes were communicated, I’m asking you “Were any other forms of communication about the discussions at the board meeting communicated to the Minister, his officials, his office staff?” If so, when and by whom? That has nothing to do with an investigation. The Minister is not being investigated.

Member It’s not [Inaudible]

Cosgrove With respect, sir, I’d like an answer from the chairman.

Butler Mr Cosgrove, I’m not going to answer that because I do—I’m aware that this is a public forum today; the media are here. I do not want to in any way
interfere with the investigation. It needs to be able to carry on with its work, and so I will not answer that.

Cosgrove With respect, sir—and I’ve got to say I caution you—there is no difference in my question and your answers that you’ve provided to my colleague. We’re not asking the contents of that. We’re not asking you to divulge anything apart from “Was the information communicated in a different way?” You’ve said minutes weren’t communicated. Fine. You’re declining to answer whether yourself or any other individuals from your organisation—

Member He’s already answered your question.

Cosgrove He hasn’t answered.

Member He has; he’s answered a question.

Cosgrove He hasn’t answered it. He’s declined to answer it and he’s hiding behind the fact that there’s an investigation. Neither this person or his colleague or the Minister or their staff or their officials are under investigation. The question I’ve got is why you won’t answer, because I think you have answered the question by declining to answer it, sir.

Butler Mr Cosgrove, the company, the board, the chief executive fully support this review, this investigation.

Cosgrove It’s nothing to do with the review.

Butler We are providing access to people, to documents, and until the investigation is complete, I’m not going to answer.

Cosgrove Sir, that is an inadequate answer and you are hiding information from this committee.

Bishop We’ve taken it out there as far as we can go.

Cosgrove We know where to look.

Sage The Christchurch Convention Centre: how much has been spent on that to date—about?

Brantley I think that the expenditure that we would have had in the last financial year since the creation of Ōtākaro—I can’t actually go back further than the creation of Ōtākaro; I just don’t have the information—I think it would be
somewhere in the order of around $600,000 or $700,000, but I will give you more precise information of what we’ve spent.

Sage

Would you? If you don’t have the information from going back beyond Ōtākaro, does that mean that CERA hasn’t passed over all of the information around the convention centre?

Brantley

Ōtākaro has not received any of the financial information or any of those records from CERA at transition. Those are all retained by the Department of the Prime Minister and Cabinet.

Sage

So how much does Ōtākaro estimate the convention centre is going to cost?

Brantley

The information that I’ve got available is there was a number of $284 million that was quoted in 2012 at the time of the announcement of the CCP. That number has been revised periodically as we’ve revised the business case and as we’ve done more work on it, and we’re continuing to revise that number. To be honest with you, we cannot finalise that number until such time as we actually are in a position to award the main works contract. As you can appreciate, I wouldn’t want to put that number out until I actually finalise that contract. As soon as we finalise that contract, then the number would be available.

Sage

There are fact sheets which say that construction was due to start in July last year. The project has gone on and on. Is there any proposal by Ōtākaro to consult the public, given these long delays, so that the people who are actually paying for this convention centre have some say in its design and how it’s going to work?

Brantley

What we’re doing is that we’re taking the work that has been done up to the time of the creation of Ōtākaro and we’re proceeding with finalisation of the design—that is, targeted the business case that was given to us to implement.

Sage

So you’re still sticking with that business case even though the deal with Plenary fell over and even though there’s been ongoing delays and reports in the media of escalating costs. You’re sticking with that original concept?

Brantley

We are sticking with the concept that was done of the most recent business case development for the convention centre and we’re proceeding with the design of that convention centre. We have had some interface on the outlined plan for the convention centre and that has identified some issues and we’ve continued to revise a little bit of the design to get better interfacing with the Cathedral Square and to make sure we can get better activation on Armagh Street, but, in essence, we are proceeding with the concept design that we were given to implement.

Sage

Who’s going to own it when it’s finished?

Brantley

It is, at the present time, conceived as a Crown facility. We will look at what the arrangements are in ongoing discussions about who’s invested at what
point in time and who are the eventual owner, but it is being set up and
developed as a Crown facility.

Ross Can I ask a bit of a process question here? The transfer of assets to the
Christchurch City Council—can you give the committee some more
information about the process that will be followed with that transfer, the
milestones you'll be looking for before transfers take place, how the
interaction with the council works on those issues?

Brantley What we’ve done is that we’ve worked with the council officers and council
officials to devise a process at which we’ll transfer the assets. We’ve taken
the design standards that the council require us to build those public
facilities like the river works or the playground or Victoria Square. We’re
building those to those, with ongoing reviews of the design and
development as we go through the process to make sure that we comply
with the eventual requirement of council on design standards.

Once we get to the estimated date for project completion, we give notice to
the council. They then have an opportunity to come and do a due diligence
on the asset and then we will turn those assets over. It'll still maintain them
for a period of time and eventually transfer ownership to the council and
they'll take over the responsibility of running those.

Ross How is the council’s involvement in those decisions and around transfer?
Can you give us a bit more detail about that?

Brantley Yes, that’s right. We reach a point that we consider prac
tical completion.

Once we get to that, we give notice to the council. Council then send their
officers over to verify compliance with the design standards that the council
asked us to build to. They then make sure that they’ve got all their drawings
that they need for long-term maintenance of the facilities and then we
review any outstanding contractual issues with the contractor in terms of
reaching final completion, transfer the assets, and then they take it over
from then on.

Ross I’ve another one. I’ve been reading the letter of expectations from the
Minister to the company and there’s appropriate wording in there around
the fact that operating in a commercially responsible manner, the fact that
the company is funded by the Crown to build specific assets—is an
expectation that there be a more intensive monitoring regime than for a
normal commercial company. You both have extensive experience in the
commercial sector. Can you talk to us about the lift in that monitoring—the
additional measures and processes you have in place to meet that
expectation?

Brantley While you think of the answer to that monitoring, I might just give you an
example of how a divestment activity illustrates that balance of good
commercial returns to the Crown with great regeneration outcomes for
Christchurch. There’s a block of land that sits opposite the bus interchange
which has been divested and will become an entertainment complex. The
bus system of Christchurch needs more people. Christchurch needs more
people shopping, using hospitality, being in the city, enjoying life. There will
be up to six sittings a day of probably 850 to 900 people in this entertainment complex. Underneath, there’s hospitality as well. There are younger people, older people. They’ll be coming in at times that are different from those who are working in the city. So in terms of regeneration, more people in the city, more people having fun in the city, more people buying things in the city, more people using public transport—it’s a perfect example of regeneration.

Bishop  Sorry, to cut you off there. Final clarification.

Woods  I just want to clarify an answer that you gave me earlier when I asked whether the Minister was informed of the employee conflict of interest. You answered no. You then wouldn’t answer my colleague’s question when he asked whether the Minister or any of his officials or anyone in his office was informed. Are you confirming that someone in the Minister’s office was informed of that conflict of interest prior to this becoming an issue?

Butler  Dr Woods, I stand by my statement that the board and the company did not disclose to the Minister the employment issue that was made apparent to us. In terms of subsequent allegations, it’s inappropriate. I will repeat what I said to Mr Cosgrove—that I will not answer any questions that will prejudice the review and the investigation. It would be totally inappropriate for me.

Cosgrove  You have a very strange definition of prejudicing a review, sir, I have to say.

Bishop  We’ve run out of time. Thank you very much for your presentations.

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Solid Energy New Zealand Limited

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Solid Energy New Zealand Limited (Subject to Deed of Company Arrangement), and recommends that the House take note of its report.

Introduction: about Solid Energy
Solid Energy New Zealand Limited (Subject to Deed of Company Arrangement) is a State-owned enterprise. It develops and produces coal and lignites that it supplies to domestic and international markets. Solid Energy’s key coal operations are the Rotowaro, Stockton, and New Vale mines. The Solid Energy group is made up of the parent company, and a number of controlled subsidiaries.¹

Leadership
In October 2015, Andy Coupe was appointed chair of the board, having held the role of acting chair since February 2015. Tony King is Solid Energy’s chief executive, replacing Dan Clifford in November 2016.

Deed of Company Arrangement
Since 2012, Solid Energy has faced challenging market conditions. In the year under review, demand for coal has continued to reduce, with hard coking coal prices falling as a result.

Solid Energy’s financial position deteriorated to a point where the company was no longer viable. The Solid Energy group went into voluntary administration on 13 August 2015. On 17 September 2015, creditors voted for the company to execute a Deed of Company Arrangement (DOCA) and a Restructured Debt Deed (RDD). This ended the voluntary administration period.

Under the DOCA, Solid Energy has commenced the sale of its core mining assets. The proceeds from the sale of its assets will be used to pay the participating creditors under the RDD. Once this process is complete, Solid Energy will be liquidated.

Financial performance
The Auditor-General issued a modified audit opinion on the financial statements of Solid Energy. The scope of the audit was limited because it was not possible to obtain sufficient and appropriate audit evidence to support assumptions over the fair value of the company’s mining assets. Financial statements were prepared on a non-going-concern basis, as Solid Energy is not a going concern as at 30 June 2016.

Solid Energy generated group revenues of $230.6 million in 2015/16, down from $368.5 million in 2014/15. It delivered a post-tax gain of $94.7 million compared with a post-tax

¹ These subsidiaries are listed on page 19 of Solid Energy’s annual report.
loss of $176.7 million the previous year. Solid Energy had total assets and total liabilities of $344.1 million as at 30 June 2016.

In light of Solid Energy group’s financial positions and circumstances, the Auditor-General rated both its management control environment, and financial information systems and controls, as “very good”, making no recommendations for improvements.

**The year under review: issues discussed**

**Improvements made to ensure safer mining practices**

We asked what has been done to improve safety in mining operations. Solid Energy said that there has been a significant focus on health and safety in the year under review. The 2015/16 annual report reflects improved performance in its all-injury frequency rate, from 7.2 in 2014/15 to 4.1 in 2016 (43 percent).²

**Employee uncertainty**

The sale process has created uncertainty for some employees. Solid Energy told us that it has been able to maintain staff to continue operations in order to ensure that staff will be employed by new owners who will take the business forward.

**Directors’ insurance**

We note that Solid Energy’s annual report refers to directors’ insurance. We asked what it covers, and the amount of the premiums. Solid Energy explained that it is a standard Directors and Officers policy, covering all loss arising from defined “wrongful acts”. It includes defence costs. The premium is $133,000.

**Spring Creek mine**

We understand that Spring Creek mine has been declared an unsaleable asset and that Solid Energy is planning to close the site and liquidate the remaining assets.

We asked if Solid Energy had received an offer from Thiess mining regarding the possible purchase of Spring Creek mine. Solid Energy said it had not received anything “of substance”, but that it had been indirectly approached by a lawyer on behalf of a party claiming to be backed by Thiess. Solid Energy acknowledged that its interests were closely aligned with the West Coast’s, and the preferred outcome would be to confirm a buyer for Spring Creek mine if a credible buyer emerged.

**Petition 2014/97 of Dame Fiona Kidman**

We are currently considering the petition of Dame Fiona Kidman, which was presented to the House on 13 December 2016. The petitioner requests that Solid Energy be stopped from sealing the Pike River mine, and that the remains of the 29 men be brought home if humanly possible.

Solid Energy’s response to the concerns raised by the petitioners formed part of the annual review hearing.

The majority of the discussion at the hearing focused on matters raised by the petition, and Pike River mine. Our consideration of these matters will be covered in our report to the House on the petition.

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² Number of injuries per 1 million hours worked requiring medical aid or greater treatment.
Appendix

Committee procedure

We met on 16 February and 16 March 2017 to consider the annual review of Solid Energy New Zealand Limited. We heard evidence from Solid Energy, and received advice from the Office of the Auditor-General.

Committee members

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

Advice and evidence received

The documents that we received as advice and evidence for this annual review, and the transcript of the hearing, are available on the Parliament website, www.parliament.nz.

Office of the Auditor-General, Briefing on Solid Energy New Zealand Limited (Subject to Deed of Company Arrangement), dated 16 February 2017.

Associate Minister of Conservation for Pike River, responses from Mines Rescue Trust Board, received on 16 February 2017.

Solid Energy, Responses to written questions 1–102, received on 9 February 2017.

Solid Energy, Responses to additional written questions 103–112, received on 1 March 2017.
# 2015/16 Annual review of Transpower New Zealand Limited

## Report of the Commerce Committee

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Transpower New Zealand Limited

**Recommendation**

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Transpower New Zealand Limited and recommends that the House take note of its report.

**Introduction to the work of Transpower**

Transpower is a State-owned enterprise under the State-Owned Enterprises Act 1986. Transpower owns and operates the national grid, which transports electricity nationwide, and coordinates functions essential to the national electricity system.

As the system operator, Transpower also coordinates electricity generation, transmission, and demand, in real-time. Transpower is regulated by the Commerce Commission and the Electricity Authority.

The board of Transpower is chaired by Hon Tony Ryall, and Alison Andrew is the chief executive.

**Financial overview and annual audit results**

In 2015/16, Transpower reported gross earnings of $192.9 million ($194.6 million in 2014/15) and a net profit of $181 million ($113.3 million in 2014/15). This reflects higher transmission revenues, which were up 3 percent on the previous year.

In 2015/16, capital expenditure was $229.7 million ($359 million in 2014/15). The decrease in capital expenditure reflects the completion of work in Regulatory Control Period 1 (1 July 2011 to 30 June 2015) and a deferral of some works into the later years of Regulatory Control Period 2 (1 April 2015 to 31 March 2020).

Transpower’s debt at 30 June 2016 was $3.3 billion ($3.4 billion in 2014/15). Transpower said that it is working to refinance maturing debt in the domestic market and offshore as it falls due. Transpower has a strong credit rating that is supported by its ownership structure, and as a result, demand for its debt is strong.

Transpower declared a final dividend of $98.2 million on 18 August 2016 ($112.8 million in 2014/15). This was in line with forecasts in Transpower’s Statement of Corporate Intent 2016/17.

**Office of the Auditor-General: annual audit results**

The Auditor-General assessed Transpower’s management control environment and its financial information systems and controls as very good. The auditor praised Transpower’s simplified 2015/16 financial statements, saying that such an approach can enhance transparency and support accountability.

**The scale of future capital investment**

We are aware that Transpower has just finished a considerable period of capital investment. We asked what the scale of future capital investment would be, considering the development and growth in Auckland.
Transpower said that it is spending about $400 million on capital investment each year to maintain its assets. We heard that there will be peaks from time to time—for example, the Bunnythorpe to Haywards Hill project is costing $169 million.

**Scope of work being done in Auckland**

We asked about the scope and the challenges of the work Transpower is doing in Auckland. Transpower said that the main challenge posed by the development and growth in Auckland is protecting the transmission corridors, which involves working with the Auckland Unitary Plan. We heard that building infrastructure on a narrow isthmus provides geographical challenges.

Transpower said that 10 projects are under way at the moment, including housing developments where Transpower works with developers. For example, the housing development at Flat Bush has three big transmission lines overhead that go into the city, and work with developers includes considering whether to put lines underground or to move assets, which affects land values.

We asked what the cost will be to upgrade, maintain, and develop new transmission lines in Auckland during the next 10 years. In responding to our supplementary question, Transpower said that its forecast capital expenditure in Auckland during Regulatory Control Period 2 (1 April 2015 to 31 March 2020) is $183 million. Transpower was unable to provide the investment cost beyond this period. It is currently consulting with stakeholders about how best to meet the city’s ongoing electricity needs.

**Transpower’s confidence about providing security of supply for Auckland**

We asked Transpower how confident it is about being able to meet Auckland’s electricity needs. Transpower said that New Zealand is in a good position to meet Auckland’s power supply needs and that the base infrastructure is appropriate.

Transpower is confident that the North Island Grid Upgrade project will maintain the security of supply for Auckland. A fire in Penrose last year demonstrated Transpower’s ability to provide the supply needed for Auckland city.

We heard that no power is generated in Auckland after Auckland’s thermal plants closed. This poses some challenges for Transpower in terms of power quality—voltage support and frequency management.

Transpower said it is about to begin a piece of work that will involve considering what the grid that supplies Auckland in 40 years’ time will look like and how to plan for this.

**New Zealand’s environmental sustainability rating on Trilemma Index**

The World Energy Council's Energy Trilemma Index ranks countries on how well they achieve the energy “trilemma” balance of security, equity, and sustainability. We suggested that being rated 36th out of 130 countries in the sub-index of environmental sustainability shows that New Zealand has room to improve.

We heard that more than 80 percent of New Zealand’s energy comes from renewable sources, which makes us the envy of many countries. However, there are opportunities to improve the industrial and transportation areas, and Transpower is happy to work with the other players in the industry on this.
Medium- to long-term risks for Transpower

We asked Transpower what it considers its medium- to long-term risks to be. We heard that the biggest risk is how to carefully balance the need for people to have security of supply against making sure the infrastructure is suitable for the longer term.

We asked whether people choosing to go off-grid is another risk. We heard that it is difficult for people to store the energy created by the January sun for their energy needs in July. The challenge is to enable people to be able to do this while continuing to provide reliable security and back-up.

The state of Transpower’s supply chain

We asked Transpower whether it has identified any strengths or weaknesses in its supply chain that may affect its business or the security of supply to households and businesses.

Transpower said that the interesting challenges for distribution companies include how to accommodate new technology and how to run their systems with a seven-way power flow. Cyber security is another challenge, along with being responsible for energy security in a complicated system. We heard that there are opportunities for improvement, but they come with challenges.

We discussed the need for new investment after 2022 and whether there was enough incentive for investment. The uncertainty about the continuing operation of the Tiwai Point aluminium smelter, which is a big part of the load, creates challenges. Huntly Power Station is contracted until 2022, but Transpower is discussing various options with industry.

We heard that some generation capacity has received consent. However, whether or not it will be built has yet to be determined.

Transpower’s view on laying cables underground

In 2015, we reported on petitions from Carol Beaumount and David Holm that asked the Government to commit to underground high-voltage transmission lines through urban areas. At that time, Transpower told us the primary drawback of underground transmission lines was cost. We asked Transpower whether its position has changed.

Transpower said that its position has not changed. Where cables are put underground, the cost is paid for by developers. Developers make a commercial decision about whether the value gained from putting cables underground outweighs the cost of doing so.

We heard that putting cables underground presents technical challenges, including the costs, which are seven to 10 times higher than for overhead cabling; the difficulty of locating and correcting faults; and the need for tracts of available land in which to lay the cables.

Transpower said it is happy to work with people, on a user-pays basis, who want underground transmission cables, which is what it does with developers. However, Transpower is not funded to lay transmission cables underground.

Telecommunications (Property Access and Other Matters) Amendment Bill

We discussed the Telecommunications (Property Access and Other Matters) Amendment Bill that is currently before Parliament. It would provide for lines companies to string up
fibre along electricity lines, creating a big opportunity to provide fibre backhaul in rural New Zealand. We asked Transpower what effect the bill’s provisions would have on it.

Transpower said that it supports initiatives to leverage existing infrastructure. The bill will be particularly advantageous for rural companies, because much fibre has already been installed in urban areas. We heard that Transpower is the third-biggest fibre owner in the country and works cooperatively with other telecommunications providers.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of Transpower New Zealand Limited. We heard evidence from Transpower New Zealand Limited and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Transpower New Zealand Limited, Responses to written questions, received 6 and 17 March 2017.

Transpower New Zealand Limited, Presentation, received 6 March 2017.
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WorkSafe New Zealand

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2015/16 performance and current operations of WorkSafe New Zealand, and recommends that the House take note of its report.

Introduction

WorkSafe New Zealand is a Crown Agent which commenced operation in December 2013. It carries out the health and safety and energy safety functions previously carried out by the Ministry of Business, Innovation and Employment (MBIE). WorkSafe is monitored by MBIE and reports independently to the Minister for Workplace Relations and Safety on its performance.

During the period under review, the Health and Safety at Work Act 2015 came into force (on 4 April 2016). Responsibilities delegated by the Environmental Protection Agency for managing hazardous substances in the workplace were added from 1 July 2016.

As at 30 June 2016, WorkSafe had 485.9 full-time-equivalent permanent and fixed-term staff.

Financial performance

In the year ending 30 June 2016, WorkSafe had total revenue of $91.100 million, compared with $91.250 million in the previous year. There was a deficit of $2.217 million, compared with a $6.069 million surplus the previous year.


The Government’s working safer targets

We asked about the progress towards targets set in the Working Safer blueprint. Worksafe told us that it expects to achieve the target of a 25 percent reduction in work-related fatalities and serious injuries by 2020.

The number of workplace deaths increased in 2015/16 to 59, from 48 in the previous year. We were told that the 3-year rolling average to 2015 was 2.2 deaths per 100,000 full-time equivalents (FTE). This was 33 percent below the baseline set by WorkSafe.

We asked if Worksafe had met the 2016 target of a 10 percent reduction in workplace deaths and serious harm. We were told that this target related only to serious harm, not to fatalities, and that it was not achieved. We subsequently heard from WorkSafe that, along with the Accident Compensation Corporation (ACC), it had developed a target of a 10 percent reduction in fatalities and serious harm injuries by 2016 as a means of tracking progress towards the 25 percent reduction.

1 Serious harm: more than one week off work due to an accident.
WorkSafe noted that “whilst the 2016 target is not an official measure, it was communicated in Working Safer and is set out in key WorkSafe documents, including its 2016/17 Statement of Performance Expectations”.

To better understand how WorkSafe considers itself on target to meet the 10 percent reduction by 2016, we asked for the information it used to make these projections.

We were told by WorkSafe that work-related fatal injuries were based on official data from Statistics New Zealand for 2013–2015, and that SWIFT\(^2\) data was used to project estimates for the 2014–16 period. While an update is expected to be published in November 2017, the official data for work-related fatal injuries will be released in 2019 and work-related serious non-fatal injuries in 2018.

Some of us are concerned that the time it takes before official data becomes available compromises our ability to assess how effective programmes to reduce harm have been, and whether targets are achieved. We also consider it important that statistics can be compared between years to determine if any real improvement has been achieved.

We are dissatisfied that it is unclear whether or not WorkSafe has achieved its 10 percent reduction target in 2016.

**Harm reduction plan**

The “Reducing Harm in New Zealand Workplaces – an Action Plan 2016–2019” was issued in July 2016 in conjunction with ACC. It was developed in an attempt to reduce serious harm injuries which had not reduced in recent years. We will be interested to follow up with ACC and WorkSafe at our next review about the benefits achieved under this plan.

**Agricultural sector and the level of prosecutions**

The agricultural sector recorded 17 of the 59 fatalities notified to WorkSafe during 2015/16. We asked why WorkSafe’s prosecution rate for the agriculture sector, at 6.6 percent, was significantly lower than for the construction industry. The construction sector had 7 fatalities but 25.1 percent of the prosecutions taken by WorkSafe.

We heard that the number of prosecutions in the agricultural sector was linked to this sector having more owner-operators. They were often the person involved in the workplace accident. With manufacturing, it is more commonly an employee harmed in the accident.

We asked WorkSafe what it was doing to reduce agricultural accidents.

WorkSafe told us that this sector’s size and geographical spread has made it a lot harder to get the health and safety message across. Progress has since been made with the launch of the Agricultural Leaders’ Health and Safety Action Group in November 2016.

The first goal of the group is to build up membership and start regional groups. In the meantime WorkSafe is working with Dairy NZ and Beef and Lamb to deliver workshops and training sessions about managing risk on farms.

WorkSafe suggested that having a safety representative is an effective means of ensuring that health and safety discussions occur in manufacturing. However, it is not the best option in agriculture and other business that have only three or four workers.

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\(^2\) System for Work-related Injury Forecasting and Targeting.
New Zealand Labour and Green Party members prefer to accept the international best practice of ensuring increased worker participation through representation as being the best mechanism to improve health and safety across all workplaces.

**Working group on quad bike accidents**

WorkSafe has been undertaking work with ACC on quad bike safety. We were interested to hear about progress in this area.

We were told that WorkSafe is still consulting various organisations about the issue of passengers on quad bikes, but an interim consensus appears to have been reached. The industry and WorkSafe have agreed that children should not be allowed to ride on single person quad bikes. This approach should change the way quad bikes are used on farms.

We asked whether the proposed changes would be made into regulations and, if not, whether they could be enforced by a court.

WorkSafe told us that the strategy would be in the form of guidance for users and owners. The Act is principles-based, and guidance can be amended more readily to adapt to changes in technology or practice.

We will continue to follow this area with interest.

**Ethnic communities and the ageing workforce**

New Zealand’s workforce has been changing over the last decade, with a growing number of people working past the age of 65 and an increasingly more diverse ethnic make-up. We asked what WorkSafe is doing to better understand these groups and their needs.

WorkSafe said it is aware that some groups have a higher risk of injury. Age—whether young or old—is a factor in higher accident rates. It also determines what approach is needed to ensure people understand the importance of health and safety.

WorkSafe added that, with growing diversity, inspectors with a second language skill were being considered when filling vacancies. This would ensure that the safety message is understood by those for whom English is not the first language.

**Maruiti**

Māori make up a higher proportion of workers in high risk industries and they have a higher rate of injury. Maruiti is WorkSafe’s Māori strategy as it wants to better understand the issues. Māori-owned businesses are becoming involved in some of the priority focus areas.

The Maruiti strategy has two objectives. The first is to ensure that WorkSafe staff are culturally sensitive when dealing with Māori workers and workplace deaths. The second is a pilot scheme working with marae, families, crews, and forestry companies using different methods to get the health and safety message across. This pilot has just started in association with ACC.

**The Health and Safety at Work Act 2015**

We asked how well the new Act is being received and implemented.

WorkSafe said it has had a good up-take by employers. Inspectors have found that 72 percent of responders have a better understanding of their rights and obligations as a result of contact with WorkSafe.
We asked how many Health and Safety Representatives (HSRs) there are, and whether there is any breakdown by industry. WorkSafe said that at present the numbers are not collected. It is developing a more effective case management system to better record the number of HSRs and their training. At present this information comes from contact with inspectors during site visits and the certification and re-certification of HSRs. Approximately 16,000 HSRs have completed the certification courses.

We encourage WorkSafe to work on improving the information it has in this area. We intend to follow this up at our next review.

**Quarry certification deadline**

We asked whether all quarries have met the 2-year deadline under the Act for obtaining a certificate of compliance with the code.

We were told that follow-up inspections are taking place. Where necessary, 3-month improvement notices are issued. A notice of prohibition would be issued if a quarry manager’s certificate was not obtained within a further 3 months.

We heard that no prosecutions had been undertaken so far. Although the code had been in place for 2 years, the New Zealand Qualifications Authority had issued the compliance standard only a year ago.

**Hazardous Substances and New Organisms Act**

We asked about WorkSafe’s new responsibilities under the Hazardous Substances and New Organisms (HSNO) Act, and whether it is developing better data on fatalities and harm resulting from hazardous substances. The annual report noted that there had been 600–900 cases in the past two years.

We were told that good data was difficult to obtain as many of the incidents are the result of long-term exposure. Much of the data comes from ACC claims information and the grouping is determined by ACC. Better information is obtained only in cases where an accident results in a serious harm notification under the HSNO Act.

WorkSafe informed us that it has put out a request for proposal to develop systems that will better collect and track exposure data.

**Engagement with small and medium-sized enterprises**

Small and medium-sized enterprises (SMEs) are a significant part of the economy and employ many New Zealanders. We asked how WorkSafe connects with these businesses to ensure that the health and safety message reaches this group.

WorkSafe admitted that SMEs can be hard to reach. It often needs to make several attempts through various means. It notes that it has 780,000 users of its website, with approximately 6 million page views. This is likely to include SME businesses.

SMEs can use various online tools to obtain information relevant to their industry. A video on the www.WorkSafe.govt.nz site provides more general information. There is also a listener call-in session to answer health and safety questions on The Rock radio station.

We asked what surveys have been conducted with SMEs. WorkSafe said it has not conducted any surveys itself with SMEs, but ACC and biz.govt are involved in supporting SMEs and conduct surveys.
WorkSafe added that it has been able to include health and safety information with material sent out by ACC, biz.govt, Xero, and the Chambers of Commerce.
Appendix

Committee procedure
We met on 9 February, and 16 and 23 March 2017 to consider the annual review of WorkSafe New Zealand. We heard evidence from WorkSafe and received advice from the Office of the Auditor-General.

Committee members
Jonathan Young (Chairperson)
Dr Parmjeet Parmar
Hon David Bennett
Peeni Henare (until 22 March 2017)
Raymond Huo (from 22 March 2017)
Iain Lees-Galloway
Clayton Mitchell
Sue Moroney
Denise Roche
Alastair Scott
Hon Maurice Williamson
Dr Jian Yang

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


WorkSafe Zealand, Responses to written questions 1–102, received 28 November 2016.

WorkSafe New Zealand, Supp1: responses to additional questions 103–123, received 31 January 2017.


WorkSafe New Zealand, Supp4: responses to further post-hearing questions, received 21 March 2017.
2015/16 Annual review of AgResearch Limited

Report of the Education and Science Committee

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AgResearch Limited

Recommendation

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of AgResearch Limited, and recommends that the House take note of its report.

Introduction

AgResearch Limited was established as a Crown Research Institute (CRI) in 1992. It is the largest CRI in terms of assets and revenue. AgResearch has the second-largest staffing of the CRIs, and is largely based on four campuses: Waikato, Manawatu, Canterbury, and Otago. Its core purpose is to “enhance the value, productivity and profitability of New Zealand’s pastoral, agri-food and agri-technology sector value chains to contribute to economic growth and beneficial environmental and social outcomes for New Zealand.”

In 2015/16, AgResearch received total operating revenue of $147.361 million, down from $155.379 million in 2014/15. It reported a net profit after tax of $657,000, an increase from the $113,000 deficit in 2014/15, and an improvement on the budgeted deficit. This was largely thanks to a gain from the sale of assets.

Future Footprint Plan

We asked for an update about AgResearch’s Future Footprint Plan (FFP). The FFP project is a $133.3 million reinvestment into campuses and resources, which will change the distribution of staff within the organisation. Several teams will relocate to the Lincoln Hub as part of the FFP. Once completed, there will be 940 scientists from five organisations located at the Lincoln Hub, which will make it the second-biggest concentration of agricultural scientists in the Southern Hemisphere. AgResearch has already recruited people into new positions under the FFP.

We heard that the first buildings to host AgResearch science staff were to have opened in 2017, but are now on track to open for non-science staff in late 2018, and for science staff in late 2019. Part of the reason for the delay has been complications arising from the Christchurch rebuild. AgResearch staff are helping to design the new laboratories and buildings at the Lincoln Hub, and to plan how the teams will interact.

Staff engagement

AgResearch did not meet its staff engagement goal in 2015/16. It measured 59, up from 58.2 in 2015, but still below the 2012 figure of 64.6. We asked what it considers an acceptable level of engagement, and what steps it is taking to lift the engagement level of staff. We were told that AgResearch is working to lift staff engagement to the upper-quartile of comparable research and development organisations in New Zealand. AgResearch is focusing on communicating its vision and strategy to staff, empowering its staff, and developing new organisational values that are aligned to its strategy. AgResearch is concerned about the level of staff engagement. We will continue to monitor the levels of staff engagement at AgResearch.
Retention of key staff

The science team at AgResearch has reduced over the last six years. The total number of scientists and technicians has dropped from 481 to 405 full-time equivalents. However, the proportion of research staff in the organisation increased from 86 percent to 87 percent during the year under review. This adjustment followed analysis of the organisation’s science capability and areas that have growth potential or are redundant. AgResearch told us that it has been assured by a science advisory panel that it has the right balance of capabilities to be able to meet sector needs with the resources it has. AgResearch has also received positive comments from its stakeholder survey.

A loss of key staff was one of the key business risks identified by AgResearch when preparing its Future Footprint Plan (FFP). This would threaten its ability to provide services to its main customers and stakeholders. We asked what would be an acceptable number of staff agreeing to move to the Lincoln Hub. We were told that 15 key staff are considered essential to the business. So far, one of these has left AgResearch, but for reasons unrelated to the FFP. None of the others have yet moved to Lincoln.

Termination payments for the year under review totalled just under $3.326 million to 66 employees. We were told that no staff cited the FFP as their reason for leaving.

Developing governance experience

We were pleased to hear that AgResearch is in its fourth year of having an observer at its board meetings. Each year, one woman from within AgResearch is selected to observe the board of directors during its decision-making and reviews of the business with senior management, in an effort to increase the number of women ready to serve on boards.
Appendix

Committee procedure
We met on 14 December 2016 and 8 March 2017 to consider the annual review of AgResearch Limited. We heard evidence from AgResearch 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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Office of the Auditor-General, Briefing on AgResearch Limited, dated 14 December 2016.
AgResearch Limited, responses to questions 1 to 102.
AgResearch Limited, response to post-hearing questions 103 – 119.
AgResearch Limited, stakeholder survey.
AgResearch Limited, terms of settlement CEA 2016.
2015/16 Annual review of Callaghan Innovation

Report of the Education and Science Committee

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Callaghan Innovation

Recommendation

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of Callaghan Innovation, and recommends that the House take note of its report.

About Callaghan Innovation

Callaghan Innovation is an advanced technology institute that was created on 1 February 2013. It is a Crown entity that operates under the Callaghan Innovation Act 2012 and the Crown Entities Act 2004. Its strategy is to help New Zealand businesses develop and commercialise technology by providing technical expertise, advice, skills development, and access to industry networks and grant funding. In providing these services, it seeks to build and improve New Zealand’s innovation capability.

Callaghan Innovation partners with a range of public and private entities, businesses, and agencies to help companies prepare products for sale. It has a target of assisting business research and development (R&D) investment to reach 1 percent of GDP by 2018 (up from 0.58 percent). Callaghan Innovation also aspires to increase exports to 40 percent of GDP by 2025.

Financial performance

The institute’s total revenue and other income for 2015/16 was $244.626 million, about 5 percent more than in 2014/15. About two-thirds of this revenue was for Crown-funded R&D grants ($154.126 million, up 11 percent from the previous year) and from commercial ventures ($20.319 million). The remaining revenue was principally from the Ministry of Business, Innovation and Employment (MBIE) for the institute’s operations, including research and development.

Callaghan Innovation recorded a surplus of $1.058 million for 2015/16 (down from $2.421 million for 2014/15). The surplus was down due to joint venture impairment.

Measuring the commercialisation of innovation

Callaghan Innovation’s mission is to accelerate the commercialisation of innovation by New Zealand businesses. It measures this by the number of businesses receiving growth grants that maintain or increase their research and development.

The 2015/16 target for the percentage of businesses receiving growth grants that maintain or increase their research and development was 70 percent, and the actual figure was 83 percent.

Some of us are concerned that the economic impact of increased research and development is not being measured quantitatively. Callaghan Innovation said that a more comprehensive framework for measuring progress and performance is still being developed. It added that it has also implemented a customer relationship management system and a more detailed contractual system with grants companies.
We recognise that Callaghan Innovation is giving priority to developing measures so that it can report on its performance and the impact it is having on innovation. We note from the Auditor-General that good progress has been made, but improvements are still needed. We hope to see this work continue, and will be interested in the measures once they have been established.

**Good to Great strategy**

In 2015/16 Callaghan Innovation launched its Good to Great strategy, which aims to enhance its operational areas by arranging firms and services into six sectors and assessing how research and technical services are integrated into those sectors. Several technology platforms are being used to support these sectors with data analytics and ICT (information and communications technology).

We were told that the new strategy will help Callaghan Innovation have a greater impact and better align itself with sector partners. We heard that the new sector-orientated model is being implemented successfully. It is improving services and collaboration with sector partners, and generating more commercial benefit.

**GlycoSyn**

GlycoSyn is the pharmaceutical ingredients arm of Callaghan Innovation, inherited when Callaghan Innovation was created in 2013. We were told that Callaghan Innovation does not view GlycoSyn as part of its core business, because it requires ongoing capital and investment. Callaghan Innovation is selling GlycoSyn on the open market as a going concern.

In 2015/16, GlycoSyn contributed $6.8 million out of total overseas revenue of $8.8 million, which came solely from a client base in the United States.

As GlycoSyn was created entirely from taxpayer funding, some of us would like to see a good return on the sale of the business.

**Research and development grants**

One of Callaghan Innovation’s main strategic priorities is providing R&D funding to businesses. Callaghan Innovation administers three funding programmes: Growth Grants, Project Grants, and Student Grants. They aim to help start-up, young, or established businesses to increase their R&D investment for greater impact.

We were pleased to hear that 31 percent of organisations funded by Growth Grants increased their spending on R&D.

**Claw-back provisions**

The Growth Grants have a “claw-back” provision: grant money must be returned should a change occur that reduces the benefit to New Zealand. We were told of four instances where the claw-back provision was invoked in 2015/16. In early 2016, Endace agreed to repay Callaghan Innovation $1.9 million, which it has now done. Callaghan Innovation has lodged a claim with the liquidators of Gameloft for $3.53 million. Other outstanding clawbacks include Trends Publishing International Limited for $344,000, and Wynyard (NZ) Ltd for $681,000.
Support for start-up businesses

Callaghan Innovation’s other funding schemes and support mechanisms are tailored specifically to start-ups and small to medium-sized enterprises (SMEs). These range from Getting Started grants, to incubator or accelerator programmes, to targeted project funding.

We are pleased that Callaghan Innovation provided support to more than 152 start-up initiatives in 2015/16, totalling $11.66 million, and that support for SMEs is set to increase in 2016/17.

Māori businesses

We asked whether the number of Māori businesses receiving grants had increased in 2015/16. Callaghan Innovation told us it has made changes to its grant settings to accommodate Māori business structures. In the year under review, 11 Māori companies received Growth, Project, or Student Grants.

Gender and pay equality

We note that 65 percent of Callaghan Innovation’s staff is male. It told us that achieving gender balance is a major challenge since more men than women tend to be involved in science at a senior level. Callaghan Innovation said it focuses on encouraging women into the organisation. It has done some analysis on equal pay and found no discrepancies. It has a leadership network, and internal and external mentoring programmes, to support female scientists in developing their skills and capability so they can be promoted into senior roles.

Drone technology

We heard that the technology for unmanned aerial vehicles, or drones, is constantly developing, and New Zealand companies and entrepreneurs are in the forefront. In New Zealand, the technology has particular benefits for the primary industries, and film and television sectors.

We are pleased that Callaghan Innovation strongly encourages and supports the development and use of drone technology. In April 2015, it launched a competition called the C-Prize. The competition invited New Zealand innovators, entrepreneurs, and students to develop drone technology.

Callaghan Innovation told us that the competition provided a boost to the drone technology sector, and gave entrants an opportunity for networking and collaboration. Callaghan Innovation supported competition finalists with advice and coaching in building and testing drone prototypes. The winners were later exposed to world-leading technology when they attended the 2016 National Association of Broadcasters with their drone prototype.
Appendix

Committee procedure
We met on 30 November 2016 and 8 March 2017 to consider the annual review of Callaghan Innovation. We heard evidence from 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
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Peseta Sam Lotu-Iiga
Hon Maurice Williamson

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Office of the Auditor-General, Briefing on Callaghan Innovation, dated 30 November 2016
Callaghan Innovation, Responses to questions 1 to 102
Callaghan Innovation, Appendix to responses to questions 1 to 102
Callaghan Innovation, Presentation
Callaghan Innovation, Responses to post-hearing questions 103 to 116

Report of the Education and Science Committee

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of Careers New Zealand, Education Council of Aotearoa New Zealand, Education Payroll Limited, Institute of Geological and Nuclear Sciences Limited, Landcare Research New Zealand Limited, National Institute of Environmental Science and Research Limited, New Zealand Forest Research Institute Limited, New Zealand Institute for Plant and Food Research Limited, New Zealand Qualifications Authority, and Network for Learning, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Dr Jian Yang
Chairperson
2015/16 Annual review of
Education New Zealand

Report of the Education and Science
Committee

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Education New Zealand

Recommendation
The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of Education New Zealand, and recommends that the House take note of its report.

Introduction
Education New Zealand is a Crown Entity responsible for supporting international education. It works to increase awareness of New Zealand as a study destination and to support education providers to market their services and products internationally. A recent report prepared for Education New Zealand by Infometrics and the National Research Bureau put the economic value of New Zealand's education industry at $4.28 billion.

Education New Zealand's revenue for the year under review was $34.89 million, an increase of about $900,000 over 2014/15. Education New Zealand had a $2.13 million deficit for 2015/16, compared with a deficit of $371,000 in 2014/15. This result was in keeping with a planned deficit for the last three years to reduce the surplus it had accumulated in reserves as a result of a transfer of assets from the Education New Zealand Trust.

We were pleased to note that the Office of the Auditor-General graded Education New Zealand's management and control environment as “very good”, an improvement on the 2014/15 grade resulting from Education New Zealand’s strengthened control environment.

Quality of international students
In 2015 there were 125,011 international student enrolments with New Zealand providers, a 13 percent increase over 2014. The strongest growth was in the institutes of technology and polytechnics (ITP) sector, which grew 23 percent. The number of international students from India more than doubled between 2013 and 2015; many of these students attended courses in the ITP sector. We are aware that between July and October 2016 the number of study visas issued to Indian students reduced by 52 percent compared with the same period in 2015. About 60 percent of applications received from the Indian market were declined in the year under review. In some instances, agents based in India have been found to use fraudulent documents in over 70 percent of their submitted student applications.

We asked whether the reduction in the number of study visas issued to Indian students would affect growth in the sector. Education New Zealand told us that the performance of the sector is consistent with the previous years as there has been an increase in higher-value students coming from India and other jurisdictions. This has compensated for the overall reduction in total numbers of students.
Work rights for international students

Education New Zealand told us that international students want value from their experience in New Zealand, including the opportunity for work experience. We heard that Education New Zealand is working closely with Immigration New Zealand and the New Zealand Qualifications Authority (NZQA) to ensure that the opportunities offered international students match those of our competitors. Most international students studying in New Zealand qualify for a 20-hour per week work visa, and the Post Study Work Visa (Open) allows students to find a job relevant to their qualifications.

Placement of international students

We were interested to learn that Education New Zealand has been working to improve the geographical spread of international students throughout New Zealand. Over the past 18 months it has worked with 14 regions to place students around the country. Tertiary education organisations and primary and secondary schools work with their local councils and economic development agencies to attract international students to their region. The first region to develop a partnership programme, the Bay of Plenty, is experiencing significant growth. Southland and Christchurch have also made strong progress. Some regions have set up an international education committee to pursue international education opportunities.

Changes to the pastoral care code

We are aware that the code relating to the well-being and pastoral care of students was changed in July 2016. The code of practice prescribes what is expected of education providers and their agents in caring for their international students. The code contains new provisions to ensure that providers take more responsibility for the experiences of international students.

The pastoral care code also gives students a clearer understanding of their rights in New Zealand, what their expectations should be, and ways that they can raise any concerns. The NZQA is developing a monitoring mechanism to ensure that the code is applied uniformly. Providers need to be signatories to the code if they want to host international students.

There is also an increased onus on international agents to make sure they are acting appropriately, giving the right messages to students, and acting on behalf of the provider. Providers have improved their management of agents, which has led to improvement in the behaviour and quality of agents in some markets. Education New Zealand also told us of industry groups sharing examples of ways to manage agents and ensure that they are operating effectively.

Offshore delivery

Education New Zealand earns $242 million a year from the delivery of educational services offshore. It intends to increase this to $500 million a year by 2025. We heard that it is hard to quantify the exact contribution from education services offshore, as it is hard to track the total contribution of New Zealanders teaching overseas. Education New Zealand expects to see an increase in campus-like activity in Southeast Asia and China, and there are opportunities to teach English-language skills in several markets, including Latin America. In 2015 there were 3,495 international students enrolled with New Zealand providers offshore. We will watch developments in this area with interest.
Appendix

Committee procedure
We met on 30 November 2016 and 8 March 2017 to consider the annual review of Education New Zealand. We heard evidence from Education New Zealand 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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on Education New Zealand, dated 30 November 2016.

Education New Zealand, responses to questions 1 to 102.

Education New Zealand, responses to post-hearing questions 103 – 114.
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Education Review Office

Recommendation
The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of the Education Review Office, and recommends that the House take note of its report.

Introduction
The Education Review Office (ERO) is a Government department established under the State Sector Act 1988 to review the performance of pre-tertiary education providers. ERO operates independently from 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.

Financial and service performance
ERO’s total revenue for the year ended 30 June 2016 was $28.599 million, an increase of $726,000 from the year ended 30 June 2015. It had a surplus of $9,000 for the year under review, down from $58,000 for the previous year.

In 2015/16, ERO completed 1,259 reviews of early childhood education services and 702 reviews of schools across the country.

Based on its 2015/16 audit, the Office of the Auditor-General rated ERO’s management control environment, and its systems and controls for measuring financial performance as “very good”. It found that ERO’s systems and processes for capturing and reporting on non-financial performance are generally appropriate. However, as in the previous year, it has recommended some improvements. We hope to see ERO act on the Auditor-General’s recommendations.

Seclusion rooms in schools
We are aware of recent media reports about the use of seclusion rooms in several schools around the country. We asked why some of the schools that use these rooms have still received positive reports from ERO.

ERO said that when conducting a review of a school it always looks at the emotional well-being of the students. It does this through observation and interviews with the principal, teachers, and the board of trustees. As it is difficult to know each student’s experience in a school, ERO focuses on the processes that schools develop for behaviour management issues with students. Some behaviour management plans use a time-out room, which ERO sees as completely acceptable. However, it was not aware of children being locked for long periods in dark rooms.

We were told that ERO recruits high-performing teachers as examiners. If they had been aware of the use of seclusion rooms, they would have drawn attention to them in their reports.

The chief executive noted that what is meant by “seclusion” is not fully clear.
Evaluating the use of physical restraints

We asked how ERO assesses the way schools manage the physical restraint of students. We heard that on average ERO spends two to four days in a school every three years. While the assessment teams are well equipped, the short timeframe makes it difficult to see everything happening in a school. However, ERO believes that on the whole the professional teaching workforce deals well with difficult situations every day.

Students with high needs

We have also heard that some parents are asked to pick their children up early from school as it does not have the resources to accommodate children with high needs. We asked whether ERO has observed this in any of the schools it has visited. ERO said it has anecdotal evidence of this happening; the more information it has, the more able it is to act. It currently shares information with the Ministry of Education on this issue but acknowledges that more could be done in this area.

Triangulation method of evaluation

We were interested in how ERO uses the “triangulation of evidence” approach when it reviews a school. We heard that ERO looks at evidence of compliance by seeking assurance from the board of trustees that it is meeting its legislative requirements. It then talks to the chair of the board, the principal, and students to ensure the school is meeting those requirements. ERO also examines classroom practice and the school’s policies and procedures. All this information is then evaluated by highly-trained ERO staff to ensure the school is performing well.

We asked whether ERO is able to use information from other organisations that collect information on the education system in New Zealand. We were told that, while ERO can take further sources of information into account, it has to find evidence of it in the schools it is assessing.

Implementing ERO’s recommendations

We were interested to note that 91 percent of schools evaluated have used the review and evaluation process to make improvements. We heard that this percentage comes from a survey ERO conducts after reviews. Schools are simply asked a “yes” or “no” question as to whether they have used the review to improve performance. Some of us are concerned that there is no follow-up on the recommendations that ERO makes in its reports. ERO said it checks at its next review of a school whether its recommendations have been implemented.

New evaluation indicators

ERO has recently produced a document detailing its new evaluation indicators. They focus on achieving equity and excellence for all learners. We asked what feedback ERO has had from its stakeholders about them. We heard that feedback from the teaching profession has been positive. Many schools are now using the new indicators for their planning and teaching.

The new indicators were designed by international experts and based on evidence from the Ministry of Education. They have been trialled in schools for about 15 months. The

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1 School evaluation indicators: Effective practice for improvement and learner success, Education Review Office, July 2016.
indicators are unique to New Zealand because they include four Māori concepts: manaakitanga, whanaungatanga, ako, and mahi tahi.

**Unconscious bias of teachers**

We are aware of a recent report that showed that teachers have an unconscious bias against teaching Māori children in a way that best suits their needs. We were interested in how these new indicators will help counter this unconscious bias. We heard that a companion document from ERO and the Ministry of Education requires teachers to understand what is happening in their classrooms and the reason for it. We were told that, while this document will help to change behaviour, it will take time. We were also told that change nearly always starts with good leadership in schools.

**Home schooling reports**

About 5,000 children are home-schooled around the country. In the past year ERO completed four home-schooling education reviews. We were told that ERO only reviews home-schoolers when the Ministry of Education asks it to.

**Home-based early childhood education**

In 2015 ERO reviewed the methodology it uses for home-based early childhood education reviews. We were interested in what changes were implemented as a result.

ERO said it reviews the licensee which is responsible for providing the early childhood education services. ERO checks for evidence that the licensee visits their home-based services on a regular basis and is providing support. It also expects the licensee to survey the parents to ask for their opinions on the service provided.

We asked whether ERO visits the homes in which the education services are provided. We were told that ERO can visit by invitation only as they are private homes, not licensed services. We heard that what is important is that the licensee is giving their home-based educators the curriculum training necessary for teaching the children.

Some of us are concerned that these providers receive a Government subsidy to provide education to children, yet ERO is unable to go into the homes to check the quality of the service provided.

**Engaging parents with their child’s learning**

ERO recently published a booklet called “Partners in Learning: Helping your child do well at school”. We asked whether this has enabled more parents to become involved with their child’s learning at school. We heard that 30,000 copies have been delivered and ERO is now reprinting the booklet, but it is too early to assess its efficacy.

ERO is also putting examples online of good teaching practice for parents to see. It is filming individual stories from schools around the country so parents can learn what expectations they should have of their child’s school. We heard that children are more successful when there is a strong connection between school and home.
Appendix

Committee procedure
We met on 30 November 2016 and 8 March 2017 to consider the annual review of the Education Review Office. We heard evidence from the Education Review Office 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 Sam Peseta Lotu-Iiga
Tracey Martin
Todd Muller
Adrian Rurawhe
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:
Education Review Office, Responses to written questions, received December 2016.
Education Review Office, Responses to additional questions, received 27 January 2017.
2015/16 Annual review of the Ministry of Education

Report of the Education and Science Committee

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Ministry of Education

Recommendation

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Education, and recommends that the House take note of its report.

Introduction

The Ministry of Education is the lead advisor to the Government on the education system, covering early childhood education, primary, secondary, and tertiary education. It acts as a steward of the education system, working to raise the performance of the system as a whole.

Financial performance and audit results

In 2015/16, the ministry’s total revenue was $2.115 billion, up 1 percent from $2.094 billion in 2014/15. It ran an operating surplus of $22.5 million in the year under review.

The operating surplus translated to a net deficit of $13.1 million for 2015/16 once the ministry accounted for a net unrealised loss. The loss arose from interest rate swap contracts that the ministry arranged through the Treasury to manage its exposure to fluctuating interest rates under its Public–Private Partnership obligations. The Auditor-General points out that the loss is not an output expense, and is exempt from appropriation requirements under the Public Finance Act 1989.

We note that the ministry has made progress in acting on recommendations from the auditor based on the previous year’s audit. The auditor’s ratings have improved from “needs improvement” to “good” for the ministry’s financial information systems and controls, and its performance information and associated systems and controls. However, the auditor continues to note that improvements would be beneficial.

We hope to see the ministry act on the auditor’s recommendations by the time of our next review.

Use of seclusion rooms

We are aware that 17 schools used a seclusion room during 2016. Students with behavioural issues were placed in these rooms, which are lockable from the outside. We asked how the ministry is supporting schools to provide better facilities for students with behavioural problems. The ministry acknowledged that it should be providing greater support in this area. Ministry staff are working with those specific schools to establish what the exact issues are and how best to address them.

On a wider scale, the ministry developed a training package called “Understanding Behaviour—Responding Safely”. It includes a full day workshop for school staff, with ongoing support, and focuses on preventative and de-escalation techniques. It found that training needs to focus on identifying the early signs of behavioural issues before they escalate, and knowing the right response to them. The ministry also has a behaviour crisis team that schools can call for support.
Excluding students

We have heard reports of parents being asked to pick up their children early from school because of behavioural issues. The ministry said that data on this issue is limited but it is unaware of this happening in connection with the use of seclusion rooms.

The ministry said that its learning support review revealed that support for schools is fragmented and hard to access. As a result, it does not know all the issues that schools are facing and how they are using the resources available to them. It is exploring how to get better information about the needs of these students and how schools can best address them.

Assessment of student achievement

Programme for International Student Assessment rankings

The Programme for International Student Assessment (PISA) is a triennial international survey conducted by the Organisation for Economic Co-operation and Development (OECD). It aims to evaluate education systems around the world by testing the skills and knowledge of 15-year-old students in reading, maths, and science.

New Zealand’s average scores in the PISA results declined between 2009 and 2012. The ministry is unsure what caused the decline. However, the most recent results from 2015 indicate that the decline has stabilised. We were told that New Zealand’s rankings are in the top half of the OECD, and they have improved relative to other countries.

Improvement in NCEA pass rates

We are pleased to note that the NCEA Level 2 pass rates for Māori and Pasifika students improved to 70.6 percent and 76.6 percent respectively in 2015. We asked what the most significant factors are behind this increase.

We were told that the Better Public Services initiative has increased the ministry’s focus. It has a goal of 85 percent of 18-year-olds achieving NCEA Level 2 or an equivalent qualification in 2017. In 2015, 83.3 percent of students achieved this: an increase of 9 percent since 2011.

However, the ministry is still concerned about the NCEA Level 2 pass rates for Māori and Pasifika students. To improve results further, it is working directly with parents, family, whānau, iwi, and local communities to support students’ engagement with education. This involves working with students who are at risk of not achieving NCEA Level 2, and those who have left the education system.

We asked whether students are moving away from more traditional subjects like English and maths. We heard that unpublished research shows no shift in the types of subjects students are studying. However, regardless of the subjects, gaining the NCEA Level 2 qualification is very important for going on to further study or work.

Pass rates at partnership schools

We note a discrepancy between how partnership schools report on their NCEA results compared with other schools on the Education Counts website. We asked why the reporting differs for partnership schools. We heard that this is a technical issue. The ministry is investigating how to address it to provide a transparent and accurate picture of the pass rates.
At present, partnership schools only know if a student has left the school, and not whether they have left the education system. This means the partnership school may incorrectly count a student as passing NCEA.

Some of us are concerned that some partnership schools’ NCEA pass rates are incorrect. Using the same methodology as other schools in New Zealand, they are lower than what the schools have reported.

Earthquake-affected exams

The magnitude 7.8 earthquake that hit in the early hours of 14 November 2016 happened just after NCEA exams began, and the New Zealand Qualifications Authority (NZQA) decided to proceed with the exams. We asked whether the ministry was involved with this decision. We heard that the ministry was in discussions with NZQA just after the quake so that any decision could be communicated as quickly as possible to schools. The decision was based on the number of students affected. If the exams had been cancelled, more students would have been affected.

However, some schools were closed post-quake and many students were unable to sit their exams. Those students can apply for a derived grade, based on their performance during the year. We heard that students who sat an exam but felt their performance was affected by the earthquake can also apply for a derived grade.

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. Working together allows schools to share teaching expertise and experience so every child can benefit.

About 1,500 schools are involved in a CoL. This includes 95 early learning centres and three tertiary providers.

We asked why the leader of a CoL must be someone from within the cluster. We heard that the terms and conditions for the creation of a CoL were negotiated with the Post Primary Teachers Association and the New Zealand Educational Institute. The policy of having a principal as a leader may evolve over time, but as the CoLs are in the early stages the ministry considers it best if it can be led from within.

The ministry also said that if a principal cannot be appointed as the leader of the CoL, it can seek an exemption from this rule from the Secretary for Education. Some schools have asked to extend the recruitment to a deputy or assistant principal. At present only 2 of the 52 leaders appointed are not principals from inside the CoL.

We asked whether a board of trustees plays a role in a CoL. We heard that the board of trustees makes the decision to join a CoL, and the ministry expects boards to play a strong role.

Some of us are concerned that the boards within a CoL do not share information between themselves. The ministry commented that it is in discussions with the school trustees association to promote more cooperation and information-sharing between boards.

Changes to schools’ operational funding

In Budget 2016, the Government announced targeted funding for schools that have students most at risk of educational failure. This was instead of a general increase in schools’ operations grants.
Under this new scheme, one third of schools have received more funding than they would have under the old system. Fifteen schools have not received an increase as a result of the change.

The new targeted operations grant focuses on schools with students who have spent much of their lives in a benefit-dependent household.

We asked whether the criteria would be extended to include students with learning difficulties. The ministry said it will look more widely at learning support for these students as part of its funding review.

**Digital technology in the curriculum**

We are interested in how digital technology is being integrated into the curriculum. The ministry said it is exploring ways of building the use of technology into regular subjects, but it is challenging because technology is constantly changing. Industry experts also say that underlying competencies such as collaboration and problem-solving are also important for students to learn.

We asked how the ministry will ensure that learning objectives will stay relevant as technology changes. The ministry said it has created a reference group made up of educators and experts from the ICT industry. It plans to support schools and communities of learning to partner with the ICT industry to ensure that students have the most relevant skills when they begin their careers.

The ministry plans to have digital technology as an option for NCEA Level 1 from 2018, and Level 3 will be available from 2020.

We asked how this will be resourced, as investing in new technology can be expensive for schools. The ministry said it will be essential for communities of learning to share resources and expertise. It acknowledged that rural schools face resourcing challenges. However, the virtual learning networks are a good example to learn from. It is also working with the New Zealand Technology Industry Association and the Institute of IT Professionals to investigate how they can help.

**New Zealand Qualifications Authority**

We are aware that the ministry has oversight of NZQA. We asked whether the quality assurance process for exam questions is robust enough, in light of recent reports that five maths exams contained mistakes. The ministry said that this has not happened before, and it is awaiting the results of an investigation. These will show whether there is a systemic problem for this subject or whether it was a one-off. Overall, it does not have concerns about the quality assurance process at NZQA.

**Teaching Asian languages**

In August 2014 the Government committed $10 million over five years to increase the teaching of Asian languages in schools. We asked how the ministry is supporting schools to promote this initiative. The ministry said it provides support to teachers who are specialists in language learning. However, more teachers of Asian languages are needed, and the ministry is investigating how to address this.

We asked about NZQA’s ability to set exams for these languages. We heard that this is a difficult issue. NZQA struggles to find qualified people to mark the exam papers. NZQA
will be able to set external assessments once there is a critical mass of speakers of the target language in New Zealand, and students studying it.

**Trades academies**

Trades academies are secondary–tertiary programmes that provide a broad range of learning opportunities for senior secondary students, to ensure they stay engaged in education for longer. The programme is delivered through partnerships developed between schools, tertiary institutions, and industry organisations.

We heard that there are some excellent examples of the programme working well. These involve schools reorganising the timetable around the students, and freeing up teaching staff to work more closely with them. The ministry would like to see more such examples.

**Early childhood education**

We asked how the ministry ensures that early childhood education (ECE) is of high quality. The ministry said it is refreshing the ECE curriculum; a draft is currently out for consultation. It is also working with the Education Review Office to ensure that ECE services are of high quality.

**Te Pūmanawa o Te Wairua school**

This school opened in 2014 in Whangaruru, Northland, as one of the first partnership schools. It was originally called Te Kura Hourua ki Whangaruru. However, it was closed in March 2016 after concerns about the quality of its teaching. We asked how many of the students were placed in State schools after the closure. We were told that 40 students were considered for transition support. Of these:

- 16 have entered tertiary education or employment
- 19 were enrolled in schools until the end of the year
- five went overseas, enrolled in a Teen Parent Unit, or are no longer at school.

The ministry also supported the students who enrolled at Kamo High School by providing a social worker, youth workers, and mentors.
Appendix

Committee procedure
We met on 7 December 2016 and 22 March 2017 to consider the annual review of the Ministry of Education. We heard evidence from the ministry 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
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:

Ministry of Education, Responses to written questions, received 5 December 2016.
Ministry of Education, Responses to post-hearing questions, received 30 January 2017.
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National Institute of Water and Atmospheric Research Limited

**Recommendation**

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of the National Institute of Water and Atmospheric Research Limited, and recommends that the House take note of its report.

**About the National Institute of Water and Atmospheric Research**

The National Institute of Water and Atmospheric Research Limited (NIWA) is a Crown research institute (CRI). It is New Zealand’s primary provider of environmental research and consultancy services in atmosphere and climate, coasts and oceans, fresh water, fisheries, and aquaculture.

**Financial performance**

NIWA made $4.011 million in net profit after tax for 2015/16 (2014/15: $5.755 million). The profit drop of $1.7 million was largely due to the end of several funding agreements with the Ministry of Business, Innovation and Employment, and the uncertainty of the National Science Challenges.

It received total income of $130.373 million, about 3 percent more than in 2014/15. This income included $42.854 million of core funding for research activities that support NIWA’s core purpose.

**NIWA’s research vessel, the Tangaroa**

One of the research vessels that NIWA uses for monitoring and research is the RV *Tangaroa*. The RV *Tangaroa* is New Zealand’s only deep-water research ship capable of operating in waters with thick floating ice to research ocean science, explore oil and gas, and survey the sea floor.

NIWA told us that the *Tangaroa* is at sea for approximately 300 days a year, and 40 to 60 of those days are commercially driven. Most voyages include elements of mapping the sea floor (dynamic positioning system). In 2015 NIWA mapped 40,000 square kilometres.

**Voyage priorities of the Tangaroa**

When determining *Tangaroa’s* voyages, NIWA is first bound by New Zealand’s international obligations under the United Nations Convention on the Law of the Sea. Following that, the *Tangaroa* undertakes other scientific or commercial ventures. It is a multi-purpose vessel capable of conducting mapping of the seafloor while travelling to and from destinations.

NIWA told us that there is no specific plan for the Subantarctic region at this stage, but there will inevitably be one in the future.

**Coastal research opportunities following the Kaikōura/Hurunui earthquake**

The *Tangaroa* was conducting research off the Wairarapa coast when a 7.8 magnitude earthquake occurred in Kaikōura on 14 November 2016. The *Tangaroa* was diverted to survey the seabed in affected areas. We were told that the researchers on board discovered
new sediment 300 kilometres offshore. We are interested in the outcome of the research and the resulting data.

**Support for young people and graduates**

We asked how NIWA supports and engages young people and graduates in New Zealand science. We were told that it works with students from schools through to doctorate level.

NIWA engages with younger people in various ways. It sponsors all major secondary school science fairs, assists with the Sir Peter Blake young leaders programme, and routinely hosts young students at its office, giving tours of its biological collections and supercomputer.

NIWA also told us that it supports tertiary-level science students. In 2015 it co-supervised 79 masters and doctorate candidates in three Centres of Excellence in Christchurch, Auckland, and Otago. NIWA has also helped form a new freshwater institute with the University of Waikato.

**National Science Challenges**

In the last year, NIWA has hosted two National Science Challenges, “Deep South” and “Sustainable Seas”. The challenges require investment and collaboration from researchers, universities, CRIs, and other organisations on 11 science-based issues facing New Zealanders. NIWA has appointed independent governance boards that determine the programmes and science plans under the two challenges.

Deep South focuses on understanding how Antarctica and the Southern Ocean will affect New Zealand’s climate, and what this means for the economy, infrastructure, and natural resources. NIWA told us it is investigating research opportunities in the Subantarctic Islands. This is a unique location for showing changes in climate and the surrounding ecosystem.

The Sustainable Seas challenge focuses on making the best use of New Zealand’s marine resources within environmental and biological confines. NIWA has set up five programmes for the challenge, called Our Seas, Valuable Seas, Tangaroa, Dynamic Seas, and Managed Seas, which are currently assessing the competing values around the marine environment.

**Public access to data**

This year, the Ministry of Business, Innovation and Employment conducted a four-year rolling review of NIWA. The review panel made recommendations to improve NIWA’s management of public access to its data.

We heard that most of NIWA’s data is publicly available. In 2015, 30,000 users accessed 600 million data points, and 98 percent of that data was downloaded for free. NIWA said it tries to strike a balance between providing as much free data as possible while covering the costs of data collection. We will observe with interest how NIWA manages this balance in 2016/17.

**Assessment of fish stocks**

One of NIWA’s vessels, Kaharoa, is capable of trawling to a depth of 600 metres to survey and assess inshore fish stock species around New Zealand. In 2015/16, NIWA conducted 62 assessments of fish stocks on behalf of the Ministry for Primary Industries (MPI). It says that the surveys and assessments are guided by MPI which works with the fisheries
industry to determine where assessments should be conducted. NIWA also provides research data to the Ministry for the Environment and the Department of Conservation.

**Biological collections**

We asked whether the Kaikōura/Hurunui earthquakes of 14 November 2016 had damaged NIWA’s biological collections at its Wellington office. NIWA holds an invertebrate collection which is essential for determining the evolutionary and biological relationships between New Zealand and the rest of the world.

NIWA said it had earthquake-proofed its biological collections after the Christchurch earthquakes. As part of modernising its facilities, it is consulting its board and the Ministry of Business, Innovation and Employment about major upgrades to the Wellington buildings.

**Gender balance and pay equality**

We note that 67 percent of NIWA’s staff is male. NIWA said it has recently conducted a survey to examine the gender breakdown of applicants, enrolments, successful applications, promotions, and employees’ progression. It said that younger staff members are predominantly female, and the last four senior promotions have also been women. NIWA has also done a comprehensive review of pay equity by gender and found no discrepancies. We hope that NIWA can continue to encourage and support women into the organisation.
Appendix

Committee procedure
We met on 14 December 2016 and 22 March 2017 to consider the annual review of the National Institute of Water and Atmospheric Research. We heard evidence from NIWA 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
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Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, under Submissions and Advice. They are listed below:


National Institute of Water and Atmospheric Research Limited, Responses to questions 1–102, received 12 December 2016.

2015/16 Annual review of Research and Education Advanced Network New Zealand Limited

Report of the Education and Science Committee

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Recommendation

The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of Research and Education Advanced Network New Zealand Limited, and recommends that the House take note of its report.

About REANNZ

Research and Education Advanced Network New Zealand Limited (REANNZ) is a not-for-profit Crown-owned company that operates a high performance telecommunications network. This enables New Zealand’s research and education sectors to send and receive large amounts of data at very high speeds across a high quality network in New Zealand and internationally.

The shareholders in REANNZ, on behalf of the New Zealand public, are the Minister of Finance and the Minister of Science and Innovation. It is governed by a five-person board, comprising representatives from the education, research, innovation, and commercial sectors. The company celebrated its 10th anniversary in August 2016.

Financial and service performance

In 2015/16 REANNZ’s revenue was $17.096 million, up from $15.206 million in 2014/15. This included $8.1 million in network revenue, $5.5 million in grant revenue, and $2.8 million from other sources. Of the $5.5 million grant revenue, $4 million came from the Crown under a funding agreement with the Ministry of Business, Innovation and Employment. This agreement is due to expire on 30 June 2017.

REANNZ had a surplus (excluding foreign exchange gains/losses) of $4.262 million. This was a slight increase from the 2014/15 surplus of $4.068 million.

The Auditor-General generally rated as “very good” REANNZ’s management control environment, and its systems and controls for measuring financial and service performance. The Auditor-General has recommended some further improvements in the way the company reports on its performance, such as additional trend and historic information, or benchmarking comparatives.

We hope to see the company act on the Auditor-General’s recommendations.

Exceeding performance targets

We were pleased to see that REANNZ has exceeded several of its performance targets for 2015/16. In particular, it had 52 percent growth in traffic flows, which is above its target of 28 percent. We heard that this growth is due to several factors. In particular, REANNZ worked closely during the year with its members to remove bottlenecks that affect sending large amounts of data. For example, it worked with the University of Otago to install a high-speed path onto the REANNZ network to enable faster transfer of research data.
More generally, new members joined during the year, which increased traffic volumes. The
network also grew thanks to growing capabilities in data-intensive research and increasing
digital technologies.

**Future funding**

REANNZ is mainly funded through its users such as universities and Crown research
institutes. It uses the Crown’s grant funding to help pay for items such as network
upgrades which we heard are difficult to fund within a user-pays model. REANNZ
considers the $4 million grant to be a fee for service. The Crown pays for it to manage the
system, on behalf of the Government, as this could not be provided by a commercial
supplier.

REANNZ told us that, because the funding arrangement with the Crown will end on 30
June 2017, over the past three years it has adopted strategies to diversify its revenue base
and reduce costs while maintaining service levels. These strategies have included delivering
a wider range of services to members, attracting new members to the network, and entering
innovative partnerships with other telecommunications vendors to try to create economies
of scale and reduce overall costs. We heard that these strategies meant that REANNZ did
not have to request more funds from the Government.

Recently, REANNZ has received independent advice on its economic contribution to New
Zealand as well as the effectiveness and efficiency of its operations. It has also consulted its
members about the service it provides. We heard that these reports were positive about its
contribution and service; 96 percent of the members surveyed considered REANNZ to be
essential or valuable to them in their work.

We were interested in whether REANNZ could increase the prices it charges customers to
cover the possible upcoming shortfall in funding. However, it said that if its customers had
to cover the whole cost of the service, several would have to leave REANNZ as they could
not afford it.

We learned that REANNZ has submitted a case to the Minister of Science and Innovation
with a series of options to ensure that New Zealand can maintain the capability it needs to
participate in a national research and education network. While the options are
commercially sensitive, we heard that REANNZ recommends future Crown investment in
the network.

We asked what it would mean for New Zealand if REANNZ could no longer operate. We
were told that New Zealand would be unable to participate in big data global research
collaborations. If scientific data had to be sent via a commercial network it would take 10
years; using the REANNZ network it takes one day.

We will watch developments in this area with interest. Some of us would like to see the
Crown continue to provide funding to REANNZ.

**Ultra-fast broadband rollout**

We asked whether the current rollout of ultra-fast broadband would help REANNZ. We
heard that a better fibre infrastructure helps researchers to access its network. However,
REANNZ focuses on connecting large campus research and education institutions,
whereas ultra-fast broadband is about making the internet more accessible for the public.
Funding of overseas national research and education networks

REANNZ works with over 100 national research and education networks (NRENs) around the world. We heard that all NRENs are funded through a mix of user-pays and funding from central government. The most common funding model involves users paying for the majority of operating costs, while new capital for projects comes from government investment. We heard that the Australian equivalent of REANNZ requires users to pay for the operating costs of the network, while the government has contributed over A$38 million in the past five years to upgrade infrastructure and expand the network’s capacity. The USA has also just announced a $6 billion initiative involving data-intensive research and infrastructure.

Hawaiki cable

In 2014 REANNZ entered into an arrangement with the Hawaiki Submarine Cable Limited Partnership which intends to construct, own, operate, and maintain an optical fibre network. It paid for a 25-year lease of managed capacity on the fibre optic network cable through a $15 million grant from the Crown. The cable is on track to be completed by mid-2018.

We were interested in why access to a second cable is important to REANNZ. We heard that having diversity of supply and more competition in the market is essential for REANNZ to provide the best service to its users.
Appendix

Committee procedure
We met on 14 December 2016 and 22 March 2017 to consider the annual review of Research and Education Advanced Network New Zealand Limited. We heard evidence from REANNZ and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:


REANNZ, Responses to written questions, received 12 December 2016.

REANNZ, Responses to post-hearing questions, received 25 January 2017.
2015/16 Annual review of the Tertiary Education Commission

Report of the Education and Science Committee

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Tertiary Education Commission

Recommendation
The Education and Science Committee has conducted the annual review of the 2015/16 performance and current operations of the Tertiary Education Commission, and recommends that the House take note of its report.

Introduction
The Tertiary Education Commission is a Crown entity charged with investing government funding in tertiary education organisations (TEOs) and monitoring their performance. It also provides the Government with information and advice about the organisations and the tertiary education sector.

The commission is monitored jointly by the Ministry of Education and the Ministry of Business, Innovation and Employment. This reflects its role in contributing both to education and the economy.

Financial performance
In 2015/16, the commission invested nearly $2.8 billion into more than 700 TEOs. Its total revenue was $2.922 billion (2014/15: $2.873 billion). This included operating revenue of $47 million. The operating surplus for the year under review was $48.8 million (2014/15: $19.5 million). This surplus arose from the net effect of new accounting standards and the recovery of significant funds from institutions that had under-delivered or received overpayments of grant expenditure.

Audit opinion
We were pleased to note that the commission has resolved issues that had led to the auditors issuing a non-standard audit report the previous year. It has now adopted new Public Benefit Entity (PBE) accounting standards in all areas, including for grant expenditure. As a result, the auditors have improved their ratings for the commission’s management control environment, and its systems and controls for measuring financial and service performance.

We appreciate the work undertaken by the commission, the Ministry of Education, the Treasury, EY (formerly Ernst & Young), and the auditors to meet the requirements of the new PBE standards for grant expenditure. We note that some remaining improvements have been recommended in the way the commission measures and reports on its performance. We hope to see progress on this by the time of our next review.

Monitoring tertiary education organisations
One of the commission’s main functions is to monitor TEOs to ensure that they are delivering programmes in line with their funding agreements. The commission performed

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1 Tertiary education organisations include universities; institutes of technology and polytechnics; wānanga; commission-funded private training establishments; industry training organisations; adult and community education providers; government training establishments; and secondary schools.
31 audits and 7 focused reviews of TEOs in 2015/16. It used data analytics and information-sharing to monitor and identify irregularities in student information.

Responsibility for monitoring TEOs and ensuring the integrity of the system is shared between the commission and the New Zealand Qualifications Authority (NZQA). The commission relies on information provided by NZQA. Based on this, the commission endeavours to undertake investigations proactively.

The commission told us that, since 2014, it has only needed to conduct 27 reviews or investigations of TEOs (about 1 percent of the TEOs in the system). Of those reviews or investigations, 23 were proactive, based on the commission’s audits, and four were based on complaints received.

The money that has been repaid to the commission, totalling $31 million over four years, amounts to 0.24 percent of the commission’s total funding. We are aware that the commission is working towards a more sophisticated and thorough monitoring framework.

**Education organisations under investigation**

We discussed several TEOs that are currently under investigation by the commission.

In mid-2015, the Tai Poutini Polytechnic had its first visit from the commission as part of a scheduled audit. The commission then contracted Deloitte to undertake a review in late 2015. In early 2016 this was escalated to an investigation for potential under-delivery of teaching hours. We look forward to seeing the findings of the Deloitte report, due in early 2017.

Another TEO currently under investigation is the Intueri Education Group, which is one of New Zealand’s largest private vocational education groups, comprising 12 schools. IT Training Ltd, a subsidiary of the Intueri Education Group, has been reviewed by Deloitte and no issues were found.

Deloitte also investigated two other subsidiaries, Quantum Education Group and the New Zealand School of Outdoor Studies (NZSOS). The investigation into NZSOS identified that it had been overfunded by the commission for under-delivery of learning hours and invalid student enrolments. The school has been ordered to repay the commission $1.47 million.

The Quantum Education Group is currently under enquiry by the Serious Fraud Office. It is alleged that performance indicators, including student numbers and course completions, have been manipulated. The commission assured us that the majority of schools under the Intueri Education Group meet the financial stability criteria and funding conditions set by the commission.

**Protection of students’ fees**

We asked about the protection of students’ fees in the event that a TEO is ordered to repay funding after a breach of funding conditions. For example, Agribusiness Training Ltd was ordered to repay $6.2 million in 2015 after an independent investigation found it had failed to deliver some vocational education programmes. However, Agribusiness Training Ltd went into receivership in October 2015. The commission considers the chance of repayment “minimal”.


The commission assured us that the NZQA has strict provisions in its Student Fee Protection Rules 2013 that protect students’ fees, which are held in a trust. In the case of Agribusiness, the student fees were transferred to the new education provider via the trust.

**Self-monitoring by tertiary education organisations**

In September 2016, the New Zealand Productivity Commission produced a draft report called New Models of Tertiary Education. This included a recommendation that competent TEOs should become self-accrediting by approving their own courses. The commission told us it supports qualified universities accrediting their own courses so long as the tertiary education system is flexible enough to hold those universities to account.

**Centres of Asia-Pacific Excellence**

As part of the Innovate New Zealand package in Budget 2016, $34.5 million has been allocated over four years to establish three Centres of Asia-Pacific Excellence (CAPEs) in New Zealand. These CAPEs will be university-led and cross-institutional centres of excellence, aiming to enhance New Zealand knowledge of Asia-Pacific culture, language, and economics as trade in this region increases.

The commission informed us that it has issued a request for funding applications from universities for the potential design and delivery of CAPEs. Ideally, the CAPEs would include a mix of language, economics, and international relations, as well as a strong focus on coordinating and connecting with the business sector. The commission has been working with international organisations such as Fonterra, Air New Zealand, and Zespri to provide feedback to universities on what a good application would look like.

The commission indicated that economics would play a principal role in the application process. Universities with strong economics and finance departments and connections to international businesses are highly interested in applying for funding.

**Careers New Zealand**

The Education (Update) Amendment Bill 2016 proposes to transfer the functions of Careers New Zealand to the commission in 2017. We discussed how the commission would handle the transfer and advance the careers of students if the bill is passed.

The commission told us it welcomes the opportunity to improve young people’s transitions from secondary to tertiary education and on to employment. It is working closely with Careers New Zealand to ensure a smooth and successful transition, if the bill is passed. In terms of advancing students’ careers, the commission told us that it is consulting with the Ministry of Education, which will provide the commission with some guidance in early 2017.

The commission indicated that there is currently an imbalance in the supply and demand of information for students about employment options. The tertiary education system is supply-driven, with TEOs supplying information from business sectors to students. The commission hopes to strengthen the demand side by giving parents, students, apprentices, and investors better information from the business sector. We will watch with interest how the commission integrates with Careers New Zealand and how it will address the imbalance of information.
Women in engineering

We are interested in supporting and encouraging more women into science and engineering industries. We asked what the commission is doing to increase the number of women in these fields.

The commission told us it is investing heavily in providers offering engineering courses, particularly in the Bachelor of Engineering honours degree and the Bachelor of Engineering Technology. The commission had expected to increase engineering graduates by an extra 500 a year by 2017. In fact, nearly 700 engineering students graduated at the end of 2016. The commission attributes this success to the “Make the World” marketing campaign which targets female, Māori, and Pasifika students.

We asked about the future of Gateway funding, particularly for young women. This funding enables schools to provide senior students with opportunities for workplace learning. The commission told us it understands that Gateway funding is currently capped. As a response to the growing need for trained women in trade professions, the commission also offers funding under the Youth Guarantee scheme for Trades Academy places.

Flexibility in the commission’s investment approach

The three pillars that inform the commission’s strategy are: promoting the value of tertiary education, building partnerships to support the education sector, and adapting the way it invests in the sector to ensure a better return and impact.

The commission told us that the third pillar, its investment approach, entails two components. The first is greater flexibility in the funding system to include multi-category appropriations. This allows TEOs to enrol students up to 102 percent of their allocation. The second component is long-term investment plans that allow the commission to invest in TEOs for up to three years.

The investment approach focuses on achieving better returns by implementing “quick win” projects. Such projects include simplifying the investment process for small TEOs, improving education performance indicators, and more flexible funding that follows demand.

We support the commission’s ongoing focus on flexibility in its investment strategies, provided there is sufficient accountability to ensure integrity in the tertiary education system.

English for migrants

We asked the commission about fees paid in advance by migrants to learn English in New Zealand. Currently, migrants pay the commission for English courses via Immigration New Zealand. The commission then pays the course fees to the education providers on enrolment of the migrants. The commission told us that about 12,000 migrants have paid to study English. However, only about 2,500 migrants are enrolled and studying in English courses.

The commission told us that the remaining 9,500 students, who have paid for tuition but do not study English, largely fall under the recently introduced parent category of courses. They are generally older people who are not predisposed to learning English. We will monitor how the commission works with Immigration New Zealand to ensure that migrants take up the courses they pay for.
Lincoln University

We are interested in the status and future of Lincoln University. We heard that the size and viability of this university were under question before the Christchurch earthquakes of 2010 and 2011. It continues to face some financial challenges. In 2015, the commission contracted EY to conduct a major study on Lincoln University and its options. The report is due in early 2017.

The commission told us that, after the report is released, the future of Lincoln University will depend on demand in the agricultural sector.

Northland foundation funding

We sought more information about funding for foundation education in Northland. Foundation education aims to provide access to literacy and numeracy training for people who lack these essential skills.

The commission has recently gone through a competitive funding process with Northland. It told us that the Northland region will receive 11 percent more funding in 2017 than in 2016. However, one of the key TEOs in Northland, NorthTec, will receive a funding decrease, because its performance has been lower relative to others. The commission told us that it tries to match funding with the level of learners not in employment, education, or training.
Appendix

Committee procedure
We met on 7 December 2016 and 22 March 2017 to consider the annual review of the Tertiary Education Commission. We heard evidence from the commission 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
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:
Tertiary Education Commission, Responses to questions 1–102, received 5 December 2016.
Tertiary Education Commission, Appendix 1A to Question 33, received 5 December 2016.
Tertiary Education Commission, Appendix 1B to Question 33, received 5 December 2016.
Tertiary Education Commission, Appendix 1C to Question 33, received 5 December 2016.
Tertiary Education Commission, Appendix 2 to Question 63, received 5 December 2016.
Tertiary Education Commission, Responses to post-hearing questions 103–116, received 22 December 2016.
2015/16 Annual review of the Department of Conservation

Report of the Local Government and Environment Committee

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Department of Conservation

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2015/16 performance and current operations of the Department of Conservation, and recommends that the House take note of its report.

The Department of Conservation (DOC) manages all of New Zealand’s conservation land and waters, comprising about one-third of New Zealand’s area. This includes about 8.6 million hectares of land, 44 marine reserves, and 8 marine mammal sanctuaries.

The director-general, Lou Sanson, is responsible to the Minister of Conservation.

Financial performance in 2015/16

DOC is funded by Vote Conservation. Its total revenue in 2015/16 was $381.447 million (6 percent more than in 2014/15) and its total expenditure was $373.975 million (7 percent more than in 2014/15).

DOC’s resulting surplus in 2015/16 was $7.472 million (compared with an $8.946 million surplus in 2014/15).

Impact of staff restructuring on management controls

The Office of the Auditor-General (OAG) brought to our attention the effect that staff restructuring has had on DOC’s management controls and its monitoring of compliance with laws and regulations. The OAG identified a number of areas for improvement, several of which have been raised previously. These include DOC’s:

- cash handling controls
- use of purchase cards
- procurement controls on invoice approvals, authentication of new retailer details, and lack of consistency in the variance analysis of monthly budgets.

Some of us are concerned that DOC’s organisational restructuring has adversely affected its management controls, exposing DOC to risk.

We note that environmental provisions established in 2004, primarily for remediating leaching from unused mines, remain unused. The OAG informed us that DOC intends to work on this in 2016/17. We consider remediation work to be important, and will monitor this.

We acknowledge the progress identified in the June 2016 follow-up review of DOC’s Performance Improvement Framework. We also acknowledge DOC’s work to rectify the issues identified by the OAG. DOC told us that it is investing in improving the operation of its systems and controls through initiatives such as increased training, the automation of data collection processes for performance measurement, and the implementation of new technologies.

We will revisit DOC’s progress in addressing the issues raised by the OAG.
Ensuring the security of sensitive documents

Compared with 2014/15, DOC has improved its security processes for sensitive documents. In response to the issue of access rights to employee information, we are aware that DOC has implemented documented management policies and practices. We hope to re-examine whether DOC’s new policies and practices have effectively resolved this issue during its next annual review.

Performance reporting

We note that DOC is providing public information about its performance and conservation efforts. However, we were informed that the evidence supporting DOC’s reporting varies in quality. We hope to see more consistently high-quality reporting practices in time for DOC’s 2016/17 annual review.

Organisational change

DOC was significantly restructured in 2013 with the aim of improving its effectiveness and efficiency. This involved a shift to a shared-services model for support and services functions, and changes in operational delivery to a regional model.

During 2015/16, DOC implemented phase two of its organisational transformation. This phase focussed on realigning the organisation to its strategic direction. Several changes were made to the organisation’s structure. We are encouraged by staff engagement results which show that DOC has a strong vision and clear sense of purpose. We are also pleased that staff confidence in DOC’s senior leadership team has improved.

We encourage DOC to ensure that its procurement controls and document management systems keep pace with its transformational change.

We note that phase three will focus on supporting and growing staff, embedding core leadership models, and improving systems and processes.

Closure of DOC offices

We note the closure of DOC’s field base at Ongaonga in Hawke’s Bay, and asked how many other offices might be closed. The director-general told us that no other closures are planned and that it takes “a lot of convincing before we close a place in rural New Zealand”. He also noted that in the case of the Hawke’s Bay closure, the same service could be offered through its offices in Napier and the Wairarapa.

Performance against stretch goals

DOC has eight stretch goals that it seeks to achieve by 2025. It measures progress against a set of key performance indicators. We were told that a roadmap for each of the stretch goals is still being developed, as is the means for measuring and reviewing progress towards each goal.

We note that DOC has made varied progress towards its stretch goals. Initial results show that its biggest challenge is the protection of freshwater sources and marine ecosystems (in particular wetlands and active sand dunes). This is because only 10 percent of wetlands remain, and they receive limited land status protection.

DOC has worked on a range of projects to improve the health and protection of freshwater ecosystems. They include working with the Ministry for the Environment on
the design of its $100 million Freshwater Improvement Fund, and on regional processes to implement the National Policy Statement for Freshwater Management 2014.

The director-general believes that an aspirational goal similar to Predator Free 2050 would be beneficial to guide freshwater management in New Zealand. He noted that DOC focuses on threatened freshwater species and the trout fishery, and that the Ministry for the Environment is responsible for national freshwater policies.

We note that DOC will have to work with private landowners if it is to achieve its freshwater stretch goal, because many freshwater ecosystems are not on DOC-controlled land.

We wrote to DOC asking what it had achieved in 2015/16 to progress its marine stretch goal, that “a nationwide network of marine protected areas is in place, representing New Zealand’s marine ecosystems”. We learned that much of DOC’s work focussed on supporting the introduction of a new proposed legislative framework for marine protected areas.

**Partnerships**

**Working with the private sector**

DOC partners with businesses to support its conservation projects. In 2015/16 DOC entered into several new agreements and received a 31 percent increase in sponsorship and partnership revenue compared with 2014/15. The director-general is pleased that businesses are keen to get involved and support conservation efforts.

DOC partners with many of the larger “tier one” companies such as Air New Zealand and Meridian Energy. We encourage DOC to also reach out to more small and medium-sized enterprises that might be interested in partnering with it.

**Supporting the health and wellbeing of New Zealanders**

The director-general told us that DOC is working with the Ministry of Health and the Mental Health Foundation to promote the positive mental health and wellbeing benefits of getting out and enjoying New Zealand’s natural environment. The focus in 2016 was on raising awareness of the value of connecting with nature. DOC supported Conservation Week with a theme of “healthy nature, healthy people”. Its theme for Mental Health Awareness Week was “Connect with nature--for good mental health and wellbeing”. We support DOC’s promotion of outdoor physical activity.

DOC is represented in 100 New Zealand communities, and tailors its engagement strategies to each area. However, we would like to see it pay particular attention to how it can encourage low and middle-income families to get out and experience the benefits of exploring New Zealand’s natural environment.

**Building understanding of Māori cultural and spiritual values**

DOC partners with tangata whenua and has ongoing commitments under 50 Treaty settlements. The director-general told us that DOC is trying to better integrate cultural and spiritual values into conservation action by upskilling staff in mātauranga Māori (Māori knowledge).

The director-general told us that he works with 58 iwi across New Zealand and that 25 staff members have been seconded to work with Tūhoe in the Te Urewera. We were told that DOC has learned a lot from this partnership. We endorse DOC’s initiatives to better understand and work alongside its Treaty partner.
We note that DOC has not yet developed any performance measures for the indicator “tangata whenua satisfaction with the department’s activities to help them maintain their cultural relationships with taonga”. DOC notes in its annual report that it hopes to settle on a measure that “is acceptable to the representatives of tangata whenua”. We will revisit DOC’s progress on creating an acceptable measure.

We suggest that DOC consider doing a formal review of how satisfied tangata whenua are in working with it. The director-general told us he is seriously considering conducting a formal survey that focuses on DOC’s relationship with tangata whenua.

**Protecting a habitat on China’s Luannan Coast**

The director-general told us that the Government of the People’s Republic of China has announced the protection of a small wetland area on the Luannan Coast in Hebei, China. This area is where 50 percent of migratory red knot birds come in May each year to feed before they move on to Siberia. The arrangement followed discussions between DOC and China’s ambassador, and the signing of a Memorandum of Arrangement in March 2016.

We congratulate DOC on this successful international conservation collaboration effort.

**Management of biodiversity**

**Some species recovery successes**

The director-general told us that DOC has had one of the “most remarkable seasons of recovery of some of our most protected species”. This includes the kākāpō, with a population that is now over 150 with a net growth of 24 percent. We praise DOC for its work in mapping the genome of the kākāpō. This work should increase the bird’s chances of survival by ensuring that the gene pool from the Fiordland kākāpō is mixed with the Stewart Island bird.

The director-general said that DOC requires new habitat for the kākāpō as it has run out of suitable habitat. He said that DOC is looking into cat control in southern Stewart Island and he is hopeful that Resolution Island can become a suitable habitat for the kākāpō.

We were also told that the number of takahē has hit 300, with a net growth of nine percent. Once the population reaches 500 it is considered sustainable.

We note that the kōkako is considered to be at a self-sustaining level in Pureora, having reached a population of over 500 birds.

We are pleased by DOC’s species-recovery successes, and hope to see kākāpō and takahē bird numbers grow to sustainable levels.

**Remaining species recovery issues**

We asked for the total number of animal species that are classified as threatened. The department informed us that 466 species are nationally critical, 209 are nationally endangered, and 310 are nationally vulnerable. Some species such as the Mackenzie weta remain at risk of extinction. We are concerned by the number of species classified as nationally critical and threatened with extinction.

We asked how many threatened species experienced a population decline in 2015/16. The department was unable to answer this because only a few of the most threatened species have robust population-monitoring plans. This is because the department focuses on measuring long-term trends instead of annual population changes.
We asked how DOC supports the recovery of threatened species. The director-general told us that the Minister of Conservation has requested information about a threatened-species strategy, and that she hopes to host a threatened species summit in May 2017. He noted that 70 percent of threatened species in New Zealand live on non-conservation land.

We were told that DOC “can’t do everything” and must prioritise which of the 800 ecological management units (which are areas classified as having important ecosystems and species) are the highest in biodiversity value. The director-general said that the ecological management units need to be combined with the New Zealand Threat Classification System, which assesses the conservation status of species according to their risk of extinction.

Regarding DOC’s work to protect whitebait, the director-general said that there has been success in South Westland. However, it would help if DOC knew the location of all salt wedges (where whitebait gather and lay their eggs). We hope to see progress in the identification of these whitebait habitats.

DOC is involved in various initiatives to protect the longfin eel. They include advocacy work and the development of a sign template to increase public awareness. DOC has also been working on a process for consultation about the creation of faunistic reserves. A discussion document on reviewing the Freshwater Fisheries Regulations is due to be released soon. We will monitor DOC’s progress in reducing the extinction risk for the longfin eel.

**Progress in addressing the Auditor-General’s recommendations from 2012**

The OAG informed us that DOC has made limited progress on the eight recommendations it made in its 2012 report, Department of Conservation: Prioritising and partnering to manage biodiversity.¹ The recommendations covered DOC’s prioritisation, strategic integration, and work with others to manage biodiversity.

We sought a progress report from DOC. It told us that work is either under way or completed in response to each recommendation. A report on the implementation of the recommendations is due to be completed before the end of 2016/17. We are pleased that DOC has acted on the OAG’s recommendations, and we look forward to reading its report.

**Pest eradication successes**

New Zealand has some of the highest densities of German and common wasps in the world. Wasps are a pest as they consume huge amounts of honeydew, an important food for native birds, bats, insects, and lizards. They also eat large numbers of native insects and have been seen killing newly hatched birds. The director-general said that he welcomed the licensing of Vespex (a bait used to kill wasps) which he considered a “breakthrough” of 2015/16.

The director-general informed us that the great white butterfly has been eradicated in Nelson, at a cost of $5 million.

We are pleased that the collaborative “million dollar mouse” project, which aimed to eradicate mice from the Antipodes Islands, is considered a success. The final monitoring

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results are due to be published in 2018, and will determine whether mice were successfully eradicated from the islands.

We note DOC’s pest-eradication successes.

**Predator Free 2050**

In July 2016 the Government announced a goal of Predator Free 2050. The aim is that “by 2050 every single part of New Zealand will be completely free of rats, stoats, and possums”.

The director-general told us that Predator Free 2050 was “capturing a movement in New Zealand of thousands of people who are [already] doing this work [to] bring back our birds.” He noted that about $100 million taxpayer dollars are spent on pest eradication each year.

To support the goal, the Government announced an investment of $28 million over four years to establish Predator Free New Zealand. The board will meet for the first time in 2017.

Predator Free 2050 is an ambitious goal. We note that, since 2011/12, DOC has been working with Landcare Research on a project to estimate the future costs of invasive species as a result of climate change. This information, which is due to be compiled by the end of 2017/18, could prove useful for estimating the amount of resources needed to achieve Predator Free 2050. We are therefore keen to read this research when it is available.

DOC told us that an investment of more than $3 billion will be needed to achieve Predator Free 2050. We asked why a study published in BioScience magazine put the cost at $9.04 billion.

DOC told us that there have been numerous estimates, and that many are based on assumptions such as the continued use of existing technologies. We were told that Predator Free 2050’s shift in approach from control to eradication will require technological advances. A focus of the Predator Free 2050 programme is therefore to develop new tools and techniques.

We hope to see good progress made on this front, and feel encouraged by the range of innovative phone applications, chemical lures, and other technologies such as self-resetting traps that are being developed to target pests in New Zealand. We will be monitoring DOC’s progress towards the realisation of a predator-free New Zealand.

**Battle for Our Birds**

Beech masts (when beech trees produce large quantities of seed, attracting pests such as rats and stoats) threaten endangered bird species. It was a beech mast year in 2016, and another is predicted in 2017. Beech masts pose an additional challenge to the achievement of Predator Free 2050. We will monitor DOC’s response should 2017 be another beech mast year.

We note that initial reports on the Battle for Our Birds programme have shown that the Great Spotted Kiwi in Kahurangi National Park has likely been afforded greater protection.

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Use of 1080 for pest control

Sodium fluoroacetate, known as 1080, is very effective in controlling introduced pests. It is applied from the air and can be used in steep and other difficult New Zealand terrain. It is biodegradable and dilutes quickly in water.

Some members of the public have voiced concerns about the use of 1080. DOC is continuing to research alternative pest control solutions, but in the meantime aerial 1080 drops are considered the most effective technique for large-scale pest control. The use of 1080 has been supported by both the Environmental Protection Authority and the Parliamentary Commissioner for the Environment.

The director-general commented on criticism from the Parliamentary Commissioner for the Environment in her 2013 report that DOC was spending more on 1080 research than on 1080 operations. He told us that DOC, alongside the not-for-profit company OSPRI, has increased 1080 operations to cover about a million hectares a year.

We are aware that DOC staff have been threatened by protestors who oppose the use of 1080. We asked what measures DOC has in place to protect staff and their morale. The director-general said that he involved the police after the incidents, but he acknowledged that DOC needed to do more to make New Zealanders aware of how and why 1080 is used.

We note that Tūhoe wishes to minimise the use of 1080, preferring to focus on land-based trapping. The director-general said he is still talking to Tūhoe about using 1080, but is open to using other pest control methods such as self-resetting traps.

Wilding pines

The director-general noted that $19 million will be spent on controlling wilding pines, which continue to increase by 50,000 hectares each year. We hope to hear a future progress report on DOC’s work with communities and local government organisations to control the spread of these invasive trees.

Managing kauri dieback

While the Ministry for Primary Industries leads the fight against kauri dieback (a disease that infects and starves kauri trees), DOC helps by working to prevent the spread of the disease over 730 kilometres of its walking tracks. DOC has been doing this through public education efforts, and by providing boot spray and cleaning facilities.

The director-general said it was unfortunate that the disease spread to the Coromandel Peninsula in 2014, but that it was not out of control. He stressed that a lot of research is being done by organisations such as Scion and Landcare. We note DOC’s prevention efforts to curb the disease’s spread, and will continue to monitor this issue.

Stewardship land

We wrote to DOC to ask about progress on its review of the status of stewardship land. We were told that during 2015/16 major reviews of stewardship land commenced for Ahuriri Conservation Park, Hakatere Conservation Park, Craigieburn Forest Park, and Korowai Torlesse Tussocklands Park.

There have been developments in the reclassification of land previously purchased by the Nature Heritage Fund. Over 900 hectares have been added to Kahurangi National Park, and 7 hectares were added to Abel Tasman National Park.
DOC is continuing to work on the development of a five-year plan for stewardship land reclassification work. We look forward to seeing DOC prioritising progress on this.

**Asset management**

We wrote to DOC to ask about its medium to long-term plans for asset management. It responded that it is working to ensure that it invests in the areas of highest demand, but “some popular destination sites are starting to struggle with volumes at high peak times and there is pressure on support infrastructure such as roading assets.” We were also told that some recreation facilities with low or declining use may not be replaced when they reach the end of their economic life, with funds instead being set aside for higher priority investments.

DOC also noted that demographic changes including urbanisation and New Zealand’s aging population mean that recreational spaces and facilities will need to change.

We note that DOC has commenced work on its asset-management capability and we will revisit this issue when the interim results are published in DOC’s 2016/17 annual report.

**Track maintenance**

We asked why only 56 percent of DOC’s tracks were assessed as up to standard in 2015/16.

DOC responded that this was above its performance target of 45 percent, and that tracks can be classified as not up to standard for a range of reasons. They include a track requiring vegetation clearance, or having markings or uneven surfaces. DOC stressed that visitor safety is not necessarily compromised if a track is not up to standard. However, it admitted that it is difficult to maintain its large network of tracks.

**Increasing tourist numbers**

Over the next 10 years tourist numbers are predicted to grow from 3.3 million to about 5.4 million people a year. This growth could place additional pressure on DOC’s resources.

**Promoting the spread of tourists to new destinations**

DOC continues to work on creating new tourist hubs to draw tourists away from New Zealand’s most popular natural attractions. Currently, tourists swarm to areas in “the pipeline” such as Hobbiton, Waitomo, Rotorua, and Christchurch. The director-general said that places such as Waipoua National Park and Te Paki could be made into key tourist attractions. We will monitor DOC’s progress in promoting areas of New Zealand that are less frequently visited by tourists.

**Proposal for a tourism levy**

We are aware that a tourism levy has been a topic of recent public discussion and asked what DOC is doing about the suggestion to introduce visitor tax levies to contribute towards maintenance costs.

The director-general referred us to a new report on infrastructure funding, released on 2 December 2016. The report’s authors hope “to provoke a conversation between the tourism industry and local and central government on investment in public tourism.
infrastructure such as car parks, sanitation, and visitor facilities”.\footnote{Tourism Industry Aotearoa, December 2016, \textit{New infrastructure funding report}, \url{https://tia.org.nz/news-and-updates/industry-news/new-news-item-2/}, as at 22 December 2016.} The report is directed to the Minister of Tourism and

…proposes that a National Tourism Infrastructure Levy be created comprising of a 2 percent national bed levy across the accommodation sector and a $5 increase to the border levy which would raise $65 million per annum from the industry. Matching funds from the government would bring this to $130 million per annum to fund local tourism infrastructure needs.\footnote{Ibid.}

The director-general told us that DOC is working with the Ministry of Business, Innovation and Employment on asset maintenance funding proposals, but has not yet worked out how the money would be generated. The director-general said the issue needs to be considered with “some urgency”.

Some of us support the introduction of a tourism levy. We will follow developments on this topic.

\textbf{Kaikōura earthquake response}

The director-general told us that DOC played an important role in the wake of the Kaikōura earthquake sequence, with five of its staff being crucial to the emergency response. We thank the DOC staff involved in the Kaikōura emergency response effort.

The director-general also noted that several of its facilities were damaged and that much of the habitat of the Hutton’s shearwater seabird was lost. We hope that these issues can be resolved. We will monitor all progress with interest.
Appendix

Committee procedure
We met on 1 December 2016 and 16 March 2017 to consider the annual review of the Department of Conservation. We heard evidence from the department and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Andrew Bayly
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods

Sarah Dowie, Paul Foster-Bell, and Hon David Parker participated in the consideration of the item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Department of Conservation, dated 1 December 2016.

Organisation briefing paper, prepared by committee staff, dated 24 November 2016.

Department of Conservation, Presentation, received 29 November 2016.

Department of Conservation, Responses to questions 1–106, received 16 November 2016.

Department of Conservation, Responses to supplementary questions 1–72 and 73–79, received 29 November 2016 and 20 January 2017.

Department of Conservation, Appendices 1–11 (additional material in response to questions), received 16 November 2016.
2015/16 Annual review of the Energy Efficiency and Conservation Authority

Report of the Local Government and Environment Committee

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Appendix 5
Energy Efficiency and Conservation Authority

Recommendation
The Local Government and Environment Committee has conducted the annual review of the 2015/16 performance and current operations of the Energy Efficiency and Conservation Authority, and recommends that the House take note of its report.

Introduction
The Energy Efficiency and Conservation Authority (EECA) is a Crown entity responsible for promoting renewable energy, and energy conservation and efficiency. It divides its work between the residential, business, and transport sectors. EECA is governed by a board which reports to the Minister of Energy and Resources.

Financial and service performance
The majority of EECA’s revenue comes from the Crown through Vote Business, Science and Innovation. In 2015/16, EECA’s total revenue was $55.613 million and its expenditure was $52.059 million. This resulted in a net surplus of $3.554 million.

We note that the Office of the Auditor-General made two recommendations to EECA from its 2015/16 audit:
• to provide a more extensive glossary of technical terms in its annual report, to make it easier for interested readers to understand
• to develop more focussed performance measures that would enable the public benefits of EECA’s work to be better expressed.

We look forward to seeing how EECA implements these recommendations.

Warm Up New Zealand: Healthy Homes initiative
EECA’s residential goal for 2015/16 was “to make more New Zealand homes warm, dry, and energy efficient”. Warm Up New Zealand: Healthy Homes was EECA’s most recent insulation programme. It provided grants for insulation and clean heating retrofits in houses built before 2000. The programme was targeted at rental properties occupied by low-income New Zealanders with high health needs.

The programme exceeded its original target of 46,000 retrofits, completing 53,600 by June 2016. Warm Up New Zealand: Healthy Homes was allocated $18 million in Budget 2016 to extend the programme by another two years. This extension is expected to retrofit more than 20,000 more rental properties occupied by low-income households.

We asked how the programme ensures that it targets people most in need. We heard that the tenant must have a Community Services Card or a health condition related to living in a cold, damp property for the property to be eligible for a grant. We also heard that EECA works closely with district health boards (DHBs), particularly encouraging DHBs to refer the public to the programme. EECA also liaises with the Ministry of Health to prioritise insulation for eligible tenants from its rheumatic fever programme. EECA emphasised the
value of its relationship with DHBs and the ministry, particularly as the majority of benefits from the programme relate to health, not energy.

Some of us have concerns about how to ensure that tenants can stay in their rental properties after insulation has been installed. We were also interested in how EECA convinces landlords to participate in the programme, bearing in mind that the grant only funds up to 50 percent of the cost of insulation. EECA acknowledged that landlords’ uptake of the programme has been slower than it expected. It attributed this to a combination of low awareness among landlords, and some landlords choosing not to invest in insulation. EECA added that the deadline of 2019 set by the Residential Tenancies Act 1986 should act as added incentive for landlords to take advantage of the Healthy Homes programme. Nonetheless, some of us believe that the grants are insufficient to incentivise some landlords, and that regulations should be created as soon as possible.

**Improving the performance of Wood Energy South**

Wood Energy South is a partnership programme between EECA and Venture Southland designed to promote the use of waste wood as a clean, sustainable fuel in Southland. The programme ultimately aims to reduce New Zealand’s carbon dioxide (CO\(_2\)) emissions. It is scheduled to end in June 2017.

We learned that Wood Energy South has been less successful than expected. In 2015/16, it avoided only 530 tonnes of CO\(_2\) against a target of 3,000 tonnes. We feel that this is a valuable project, and were interested to hear how EECA is working to improve Wood Energy South’s performance.

EECA reported that its 2015/16 target was not met because only a few heat-users were interested in replacing or upgrading their technology during the Wood Energy South pilot. The chief executive added that EECA has faced challenges in assuring suppliers that there is sufficient demand for the waste wood product. Similarly, potential consumers need convincing that there is adequate supply. We are reassured that EECA is working to develop a cluster of suppliers and users in order to create a stable supply and demand relationship.

In its January 2017 response to supplementary questions, EECA added that it has made “significant progress” since its November 2016 annual review hearing. We note that the 2016/17 target for Wood Energy South remains at 3,000 tonnes of CO\(_2\), and we look forward to seeing EECA’s progress towards this goal.

**Improving the fuel efficiency of New Zealand’s vehicles**

**Vehicle fuel economy labels**

New Zealand has a compulsory labelling system that lets consumers compare the fuel efficiency of different vehicles before buying. Motor vehicle traders must display Vehicle Fuel Economy Labels (VFELs) on all vehicles they are selling, with the exception of electric vehicles. This system’s success relies on traders’ compliance. In 2015/16, EECA aimed to have at least 95 percent of new cars display VFELs, and at least 90 percent of second-hand cars.

Although EECA met its 2015/16 target for new cars, it did not meet its target for used vehicles. Only 88 percent of used vehicles displayed VFELs. Some of us were concerned that this was less than in 2014/15 (when 91 percent of used vehicles complied) and
questioned whether this regulation is sufficiently enforced. We asked EECA to explain the drop in compliance.

In EECA’s view, overall compliance has not fallen. It said that in 2015/16 it decided to target non-performers. As a result, the sample used to assess its performance included a higher proportion of non-performers.

EECA also notes that, as a result of some car manufacturers intentionally skewing emissions test results in 2015/16, testing procedures are being reviewed globally. EECA will work with the Ministry of Transport and the New Zealand Transport Agency (NZTA) to ensure that New Zealand keeps up with evolving international standards.

Electric vehicles
As of June 2016 there were 1,512 electric light vehicles (EVs) in New Zealand, about twice as many as a year earlier. In May 2016, the Government announced a package of measures aimed at encouraging the use of EVs in New Zealand. EECA has several responsibilities under this package, including:

- administering a contestable fund to encourage and support innovative low-emission vehicles
- working with NZTA to develop public charging infrastructure for EVs
- designing and delivering a $5 million EV information and promotion campaign, to run over the next five years.

We sought an update from EECA about its progress on these initiatives. We heard that the EV information campaign is under way, with a new website and television advertisement already launched. EECA is developing a national calendar of EV activities and events through to June 2017, with opportunities to drive an EV and engage with EV owners. The Low Emission Vehicles Contestable Fund closed its first round in October 2016. We are pleased to note the high level of interest in the fund, and look forward to seeing the results of the successful projects.

We asked for EECA’s views on proposed measures to promote EVs, such as exempting them from road user charges until 2020 and allowing them to use bus lanes. EECA commented that these are strong motivators for potential buyers. It hopes the exemptions will encourage fleet owners to invest in EVs over alternative vehicles.

Some of us do not support the proposed measures, preferring a regulated efficiency standard as an alternative way to improve New Zealand’s transport efficiency.

Change of chief executive
EECA’s chief executive, Mike Underhill, retired in November 2016. His appointed replacement, Andrew Caseley, took up the role in January 2017. We recognise Mr Underhill’s considerable contribution to EECA over the last 10 years, and wish him the best for the future. We look forward to seeing a smooth transition.
Appendix

Committee procedure
We met on 17 November 2016 and 16 March 2017 to consider the annual review of the Energy Efficiency and Conservation Authority. We heard evidence from the authority and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Andrew Bayly
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods

Steffan Browning, Sarah Dowie, Paul Foster-Bell, and Hon David Parker participated in the consideration of this item of business.

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Organisation briefing paper, prepared by committee staff, dated 8 November 2016.

Energy Efficiency and Conservation Authority, Responses to written questions 1–105, received 9 November 2016.

Energy Efficiency and Conservation Authority, Appendices 1–6 (additional material in response to questions), received 9 November 2016.

Energy Efficiency and Conservation Authority, Responses to supplementary questions 1–6, received 24 January 2017.
2015/16 Annual review of the Environmental Protection Authority

Report of the Local Government and Environment Committee

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Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2015/16 performance and current operations of the Environmental Protection Authority, and recommends that the House take note of its report.

Introduction

The Environmental Protection Authority (EPA) is a Crown agent, responsible for regulatory functions concerning New Zealand’s environmental management. The EPA:

- is the decision-making authority for marine consenting in New Zealand’s Exclusive Economic Zone (EEZ)
- manages the environmental impact of specified activities in the EEZ, including prospecting for petroleum and minerals, seismic surveying, and scientific research
- administers applications for major infrastructure projects of national significance
- regulates new organisms and hazardous substances and chemicals
- administers the Emissions Trading Scheme (ETS), and operates New Zealand’s Emissions Trading Register.

The Ministry for the Environment is responsible for monitoring the EPA’s performance and appointing its board members. Kerry Prendergast is the board’s chair.

Dr Allan Freeth is the EPA’s chief executive.

Financial performance in 2015/16

The EPA’s total revenue in 2015/16 was $29.228 million (9 percent less than in 2014/15). Its total expenditure was $28.439 million (11 percent less than in 2014/15).

The EPA’s resulting surplus in 2015/16 was $789,000 (compared with a $282,000 surplus in 2014/15).

Management control environment, and systems and controls for measuring performance

The auditors for the Office of the Auditor-General (OAG) advised us that the EPA is performing at a very good level in the management control environment. However, the auditors made some recommendations in relation to its financial information systems and controls, and its performance information and associated systems and controls. These include improving the configuration of its financial information system, and having clearer performance measures.

The EPA told us that work is under way to incorporate the OAG’s recommendations. We will monitor the results with interest.
Fluctuating workloads

The EPA’s workload in considering applications under the Resource Management Act 1991 is demand-driven. The EPA said no new applications were received in 2015/16, for a number of reasons. They include the fact that applicants can seek resource consent through other pathways, such as local councils and the Environment Court. Also, the New Zealand Transport Agency, which is the EPA’s most frequent applicant, is not progressing its planned infrastructure projects in the Wellington region for the time being.

The EPA added that the challenge of fluctuating workloads is mitigated by potential applicants alerting it when they are doing preparatory work ahead of a formal application. This allows the EPA to identify where additional staff may be required. The EPA said it keeps a core group of full-time specialists and hires contractors for additional support.

Approval of the release of Pexa-Vec

Pexa-Vec is a genetically modified live vaccinia virus that is capable of reproducing itself. The EPA approved its release in October 2015 for use in a clinical trial on patients with a form of liver cancer. This was the first approval of this kind, and it was given under strict controls. It was not, however, publicly notified.

An issue was raised about the relationship between the Hazardous Substances and New Organisms 1996 and the Resource Management Act and it was noted this matter was before the courts. We encourage the EPA to continue engaging with local authorities.

Decision-making and compliance in the Exclusive Economic Zone

The EPA has the relatively new responsibility for making decisions and ensuring compliance with Exclusive Economic Zone (EEZ) legislation. The EPA aims to ensure that compliance is timely and within budget.

Baseline funding

The OAG advised us that in 2015/16 the EPA spent $2.464 million on EEZ decision-making (out of a budget of $4.725 million), and $1.781 million on EEZ compliance (out of a budget of $1.694 million).

The EPA said that at this stage its baseline funding has not been secured for EEZ responsibilities. However, it would be seeking baseline funding from 2017/18 onwards and is developing an investment proposal to determine the level of funding needed.

Some of us consider that the investment proposal should be linked to the review of the cost recovery systems, as discussed below. This is because of the need for public confidence in the independence of the EPA’s decision-making and compliance framework.

Recovery of outstanding debt and review of cost recovery systems

There have been two challenges to the EPA’s cost recovery related to marine consent applications under the EEZ legislation.

Trans-Tasman Resources Limited lodged a complaint with the Regulations Review Committee alleging that the EPA has been over-charging for its services. The complaint was not upheld.

A judicial review is under way into the EPA’s cost recovery from Chatham Rock Phosphate regarding its 2014 application for consent to mine phosphate rock on the Chatham Rise in the EEZ. The outstanding debt is $795,309.
We understand that an independent review of the cost recovery process is currently under way.

Ngā Kaihautū Tikanga Taiao

The EPA is supported by two statutory committees: the Māori advisory committee (Ngā Kaihautū Tikanga Taiao), and the Hazardous Substances and New Organisms Committee. We note the work of Ngā Kaihautū Tikanga Taiao in the 2015/16 year. We also note how EPA’s board ensures that iwi have the capacity to engage. The EPA said there are some challenges; however, it is dedicating some funding towards hui, increasing engagement, and making expertise available.
Appendix

Committee procedure

We met on 8 December 2016 and 23 March 2017 to consider the annual review of the Environmental Protection Authority. We heard evidence from the Environmental Protection Authority and received advice from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Andrew Bayly
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Mojo Mathers
Ron Mark
Eugenie Sage
Meka Whaitiri
Dr Megan Woods

Hon David Parker, Steffan Browning, Sarah Dowie, and Paul Foster-Bell participated in the consideration of this item of business.

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below.

Office of the Auditor-General, Briefing on the Environmental Protection Authority, dated 1 December 2016.

Organisation briefing paper, prepared by committee staff, dated 6 December 2016.

Environmental Protection Authority, Responses to questions 1–118.

Environmental Protection Authority, Responses to supplementary questions 1–14.

Environmental Protection Authority, Responses to supplementary questions 15–19 and information requests from 8 December hearing.
# 2015/16 Annual review of the Ministry for the Environment

Report of the Local Government and Environment Committee

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2015/16 Annual review of the Ministry for the Environment

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry for the Environment, and recommends that the House take note of its report.

The Ministry for the Environment is the Government’s primary adviser on the New Zealand environment and international matters that affect the environment. It has an environmental stewardship role, and leads the natural resources sector in balancing environmental, economic, and other objectives.

The ministry reported against four new outcome measures in its 2015/16 annual report. They cover seven environmental domains (air, atmosphere and climate, fresh water, land, marine, urban, and environmental management system). The ministry assessed whether:

- people are enabled to make and implement decisions that benefit society and the environment
- the use of the environment, including natural resources, is optimised for the betterment of society and the economy now and over time
- risks to people and the environment are known, understood, and well managed
- the capacity for the environment to sustain itself is safeguarded.


The Chief Executive, Vicky Robertson, is responsible to the Minister for the Environment and the Minister for Climate Change Issues.

Financial performance in 2015/16

The ministry is funded through Vote Environment. Total revenue in 2015/16 was $63.459 million (16 percent more than in 2014/15) and total expenditure was $59.641 million (13 percent more than in 2014/15). The resulting surplus in 2015/16 was $3.818 million (compared with a $2.111 million surplus in 2014/15).

The ministry’s 2015/16 expenditure was allocated as follows:

- 55 percent to the Emissions Trading Scheme
- 20 percent to departmental funding to support its work programme (for example, advice on resource management, water policy, and climate change policy)
- 16 percent to non-departmental funding (for example, for waste minimisation, Treaty obligations, and community funding)
Management control environment

The Office of the Auditor-General (OAG) advised us that the ministry’s controls over information technology should be improved. It should review and restrict the use of privileged access accounts, and improve the management of firewall rules.

We were also advised that the ministry should ensure regular monitoring and reporting of funding deeds and larger contract processes. It should undertake risk analysis that is appropriate for the size and value of each contract.

To address the OAG’s recommendations, the ministry is undertaking periodic reviews of privileged access accounts, and improving the management of firewalls. The OAG’s recommendations around contract and deed management are also being implemented.

We are pleased that the ministry is acting on the OAG’s recommendations. We will monitor its progress with interest.

Performance information and associated systems and controls

The OAG advised us that the ministry could make some changes in this area to improve on its audit rating of “good”. It could:

- develop performance measures that are more directly linked to the ministry’s long-term outcomes and intermediate targets
- ensure that its targets are clear and measurable, and that its reported results show progress that makes sense to everyday New Zealanders
- provide up-to-date information on the ministry’s performance and, where possible, include comparative information.

The ministry told us that it is working to address these issues. We are pleased that the ministry is re-examining its performance measures, targets, and the accessibility of this information. We will revisit the ministry’s progress at our next review.

Organisational makeup and direction

The ministry’s leadership team has completely changed over the past 18 months. The chief executive said she is pleased with the new team and the outputs from her ministry despite “some pretty major challenges internally”.

The chief executive told us the ministry needs to take on more of an influencing role, in order to facilitate action. She stressed her belief that rules and regulations alone are not enough. Therefore, she is hoping to train her staff in behavioural economics and techniques such as “design thinking” to find solutions to some of the complex issues that the ministry deals with. We look forward to receiving an update on how this approach has worked.

We asked whether the ministry sees its role as similar to the Parliamentary Commissioner for the Environment’s: to discuss issues publicly if the current approach does not seem to be working. The chief executive highlighted the ministry’s “independent role” in environmental reporting, which she said allows the ministry to talk about environmental

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issues and their impacts, and to engage with communities about the different policy options.

**Staff retention**

We asked what the ministry is doing to retain staff. During 2015/16, its staff turnover was 24 percent, against a public sector average of 11 percent. The chief executive explained that her staff are well engaged and enjoy working for the ministry. However, their average age is one of the youngest in the public sector, and it is common for younger staff to change jobs or go overseas after only a few years.

The chief executive said that turnover is higher than she would like it to be. She told us that the ministry has implemented rotation policies to provide more variety and challenges for staff. The ministry also promotes internal career progression so that junior analysts are able to work towards becoming senior policy analysts.

The chief executive told us that it is important for her staff to feel that the work they are doing is meaningful. She said this is especially true for staff working on projects with long-term outcomes because she is aware that many of her staff want to feel as if they are making a difference.

We intend to review whether the ministry’s initiatives have resulted in higher retention rates.

**Job-sharing**

The chief executive told us that the ministry has recently introduced its first job-sharing arrangement at the director level. We support the ministry’s openness to job-sharing, and are keen for a future update on how this arrangement has worked.

**Closure of Environment House**

Environment House closed following the 7.8 magnitude earthquake sequence that hit the Kaikōura region on 14 November 2016. Its reopening will depend on further precautionary engineering assessments. We acknowledge the ministry’s successful continuity planning and quick relocation to 3 The Terrace.

No doubt the relocation has caused inconvenience for staff. We appreciate that they have continued to provide us with advice despite these challenging circumstances, and hope that the ministry is able to move back into Environment House soon.

**Environmental reporting**

In 2015/16 the ministry and Statistics New Zealand jointly published the Environment Aotearoa 2015 synthesis report, and a marine domain report. The chief executive said that both reports revealed that New Zealand faces “serious environmental challenges”.

**Issues highlighted in the marine domain report**

The 2016 marine domain report identified three main issues:

- increasing concentrations of atmospheric carbon dioxide and other greenhouse gases from human activities are making the ocean warmer and more acidic
- more than one third of native seabirds and more than one quarter of marine mammals in New Zealand waters are classified as being threatened with extinction
- coastal marine habitats and ecosystems are degraded.
The report also noted a lack of national data on the marine environment which makes it difficult to draw firm conclusions in some important areas. For example, the ministry could not quantify the full ecological impacts of commercial, recreational, and customary fishing on coastal and open ocean ecosystems.

Some of us are concerned about whether the ministry has adequate resources to address these issues, and whether marine issues are being reprioritised. The chief executive said that resources had been reprioritised into the marine area, and that a cross-agency approach is needed. The ministry has already had discussions with other organisations in the natural resources sector.

We are keen to see progress made on the issues highlighted in the marine domain report. Some of us would like to see the ministry investigate whether marine legislation would be appropriate to address one or more of the three main issues.

**Freshwater policies and consultation**

We were told that over 6,000 people submitted their views during the ministry’s “next steps for fresh water” consultation process. The ministry has provided advice to the Minister on various regulatory and non-regulatory options. We will be interested in seeing the final policy proposals that result from this consultation.

We were told that the submissions highlighted public disagreement about what New Zealand’s fresh water targets should be, and that the public are concerned about New Zealand’s current fresh water quality standards. One issue raised was the possibility of introducing a “swimmable” standard as the bottom line.

We discussed a petition that we are considering about fresh water quality standards. The petitioner has provided evidence contrasting the percentage of freshwater bodies that meet the current standard with those that are unsafe to swim in during summer because of E coli concentrations. The chief executive noted that it is difficult to assess water quality because there are so many ways to interpret and measure how swimmable water is.

The chief executive said that her team has been doing a lot of work on mapping the water quality of New Zealand’s rivers. We were told that the ministry’s understanding of fresh water quality issues would be improved by:

- better fresh water data collection
- a greater understanding of the state of New Zealand’s waterways
- using a truly collaborative approach to addressing water quality issues.

The chief executive underlined that the ministry aims to make significant improvements in fresh water data research.

We note that the ministry is due to release a fresh water domain report in April 2017. The chief executive hopes that reliable data on fresh water quality will be available for all New Zealanders to examine at this time. We look forward to reading the domain report and the connected set of national fresh water data when it is available.

The chief executive said that the Government is considering the creation of a fresh water improvement fund. This would provide support for the clean-up of high priority waterways so that they do not reach “red zone” status. Some of us believe that there would be a conflict between the Ministry for Primary Industry’s Irrigation Acceleration Fund and the proposed freshwater improvement fund. We were told that irrigation fund decisions are

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The text above is a natural language representation of the document content. It should be readable and understandable without the need for further context or formatting adjustments.
meant to be made with the knowledge of positive or negative environmental impacts. The chief executive also noted that some people have argued that irrigation schemes can improve environmental outcomes because they can create more continuous water flows throughout the year.

We asked about progress in implementing the National Policy Statement for Freshwater Management 2014, which must be fully implemented by the end of December 2025 (or December 2030 in certain circumstances). We were told that the review of progress is being undertaken in two stages.

The first stage is a stocktake of the progress made by councils in implementing the policy statement, and considering the barriers to progress. The result of the first stage is due to be made public in the first quarter of 2017.

We were told that the second stage of the review will focus on how effective the policy statement has been in achieving outcomes. A commentary from the Land and Water Forum has been requested. We are interested in reading about both stages of the review when this information is available.

**Air quality**

We asked what progress has been made in the review of particulate matter provisions in the National Environmental Standards for Air Quality. We were told that the review is due to be completed in the last quarter of 2017. It will incorporate the most recent findings on the health impacts of particulate matter, with a focus on fine particulates (PM$_{2.5}$).

We look forward to reading about the outcome of this review.

**Marine management**

During 2015/16 the ministry completed its consultation on proposed reforms to the management of marine protected areas. We look forward to considering the subsequent bill if it is referred to this committee. We were told that its introduction is expected in 2017.

**Kermadec/Rangitahua Ocean Sanctuary**

When the Kermadec Ocean Sanctuary Bill was introduced in Parliament, the Minister for the Environment announced that the Kermadec Ocean Sanctuary was due to come into effect on 1 November 2016. Since this did not occur, we asked when the sanctuary is likely to come into effect.

The chief executive told us that conversations are ongoing. We look forward to seeing progress on this matter. Some of us would also endorse a review of the judicature provisions in the bill.

**Reporting on the amount of fish caught in New Zealand waters**

We note the report conducted by the Fisheries Centre at British Columbia University in collaboration with Oxford and Auckland universities about the amount of fish caught in New Zealand waters. The report claimed that between 1950 and 2010 New Zealand’s marine catch was 38.1 million tonnes instead of the 14 million tonnes officially reported.$^2$

We asked how the ministry is involved in this issue. We were told that the ministry and Statistics New Zealand rely on data from the Ministry for Primary Industries for marine

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$^2$ Pauly, D and Zeller D., 2016, *Catch reconstructions reveal that global marine fisheries catches are higher than reported and declining*, http://www.nature.com/articles/ncomms10244#s1, as at 16 January 2017.
domain reports. The chief executive said her ministry is discussing with the Ministry for Primary Industries the importance of improving or maintaining the integrity of its data. The ministry is also considering what new research might need to be conducted.

The chief executive told us that the 2016 marine domain report also discusses whether the quota management system is fit for purpose. The chief executive admitted that the system lacks ecological data on the impact of fishing.

We look forward to seeing developments in this area and would like to receive updates.

**Climate change**

The chief executive told us that climate change is “perhaps the global issue of our time”. Following New Zealand’s ratification of the Paris Agreement, this country’s new climate change target is to reduce emissions by 30 percent below 2005 levels by 2030.

The chief executive told us that the ministry will be working with the Climate Change Adaption Technical Working Group. The group aims to provide the Minister for Climate Change Issues with options for building New Zealand’s resilience to the impacts of climate change. We look forward to hearing more about this partnership.

We were told that the group is due to provide an interim report by May 2017 with information about existing activities that improve New Zealand’s adaption and resilience to the effects of climate change. We look forward to reading this interim report.

We are pleased that the ministry has introduced an interactive online tool to help everyday New Zealanders better understand greenhouse gas inventory data. This data can be used to show how New Zealand’s emissions have changed over time.

We were informed that the revised guidelines on sea level rise are expected in early 2017. We look forward to seeing these.

**Promoting afforestation**

We heard that increasing the number of trees in New Zealand would help in meeting the emissions target, as trees remove carbon dioxide from the atmosphere. We are pleased that the ministry is working to encourage more tree planting in New Zealand. The ministry noted that changes to the emissions trading scheme may also contribute to an increase in the net forest area.

We were informed by the ministry that a draft National Environmental Standard for Plantation Forestry will be available in February 2017, and that regulations should come into force in late 2017. We will monitor the progress of this standard as it develops.

We encourage the ministry to provide more detail about its actions in supporting afforestation in its next annual report.

**Emissions trading scheme review**

During 2015/16, the ministry completed the first phase of an emissions trading scheme review, which began in November 2015. One decision stemming from this work was to phase out the transitional one-for-two measure (allowing non-forestry businesses to pay

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4 This tool can be accessed on the ministry’s website: [https://emissionstracker.mfe.govt.nz](https://emissionstracker.mfe.govt.nz), as at 12 January 2017.
one emissions unit for every two tonnes of carbon dioxide equivalent emissions). This took effect on 1 January 2017. The phase-out aims to better support New Zealand’s climate change targets, encourage emissions reductions, and help to transition New Zealand towards a low-emissions economy.

We understand that the ministry expects to provide advice on in-principle decisions in mid-2017, and that this will bring the review to an end. We were told that further consultation would be required before the introduction of any related legislation.

**Exclusion of agricultural emissions from the review**

Agricultural emissions were not within the terms of reference for the emissions trading scheme review, and will not be included in the emissions trading scheme. However, agricultural emissions make up nearly half of New Zealand’s total greenhouse gas emissions. Some of us asked whether the ministry is doing any other work around reducing these emissions. The chief executive said the ministry is investigating what can be done, including whether these emissions should be priced. However, she stressed that this is a complex issue and that pricing is only one potential mechanism.

The chief executive brought to our attention the establishment of the Biological Emissions Reference Group. According to the Minister of Primary Industries, this group “will bring together a wide range of agricultural, horticultural, and farming stakeholders to collaborate with Government and build a solid evidence base” around agricultural emissions.5

We hope to hear more about the ministry’s work in this area. We would like to see the ministry include more detailed information in its next annual report about its work on policy options to respond to New Zealand’s agricultural emissions.

**Electric vehicles**

On 5 May 2016 the Government announced the Electric Vehicles Programme and a range of related targets.6 The programme aims to increase the use of electric vehicles in New Zealand. One of the targets is to double the number of electric vehicles in New Zealand each year, to approximately 64,000 by 2021.

The chief executive told us that the ministry has been working with the Ministry of Transport on a group of policy proposals around electric vehicles, as well as on energy targets.

The chief executive said she is pleased to see large private sector firms “more or less competing with each other to develop their electric vehicles fleet”.

We are pleased that the ministry is helping to support the use of electric vehicles in New Zealand. We would like to see the ministry doing more to encourage a faster uptake of electric vehicles.

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Waste management

Single-use plastic bags

The ministry is aware of public support for a levy on single-use plastic bags. However, it considers the disposal of plastic bags to be a small problem compared to the wider issue of soft plastic disposal. The Government is taking a broader approach which, according to the chief executive, makes “environmental sense and [is] most cost-effective and practical”. This has led to the Government’s $1 million investment in a soft plastic recycling programme which we were told has collected around 70,000 tonnes of soft plastic packaging to date. We support this initiative.

Some of us believe that although single-use plastic bags are only one type of plastic pollution, a levy could encourage consumers to change their behaviour, using fewer disposable bags and more reusable ones.

Rubber recycling

We asked about the complex issue of recycling rubber tyres. We were told that the ministry is doing work in this area and that there is a proposal to provide national direction about the storage of tyres. The chief executive expects further information to be made publicly available sometime in 2017. We look forward to reading this information when it is made available.

Review of the Environmental Protection Authority

In 2015, the ministry released findings from its first three-yearly review of the effectiveness of the Environmental Protection Authority. We were told that the ministry worked with the authority during 2015/16 to implement its response to the review. For example, the ministry helped to build the authority’s financial capacity by working to develop its four-year plan and its budget bids.

The chief executive told us that the authority has developed a more strategic approach and long-term vision, has been implementing a more flexible operating model, and is revising the role of its Māori Advisory Committee.

We look forward to further progress updates.
Appendix

Committee procedure
We met on 10 November 2016 and 16 February 2017 to consider the annual review of the Ministry for the Environment. We heard evidence from the ministry and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Andrew Bayly
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods
Sarah Dowie, Paul Foster-Bell, and Hon David Parker participated in the consideration of this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Office of the Auditor-General, Briefing on the Ministry for the Environment, dated 1 December 2016
Organisation briefing paper, prepared by committee staff, dated 24 November 2016
Ministry for the Environment (questions 1–166)
Ministry for the Environment (supplementary questions 1-33)
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2015/16 Annual review of the Parliamentary Commissioner for the Environment

Report of the Local Government and Environment Committee

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Parliamentary Commissioner for the Environment

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2015/16 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 (PCE) is an Officer of Parliament appointed under section 4 of the Environment Act 1986. PCE’s role is to provide independent advice to Parliament on environmental matters. This principally involves undertaking investigations and providing advice and reports to Parliament. Since the enactment of the Environmental Reporting Act 2015, PCE is also expected to prepare commentaries on state of the environment reports compiled by the Ministry for the Environment and Statistics New Zealand.

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, is coming to the end of her second five-year term. It is expected that the next commissioner will be announced near the end of the 2016/17 financial year.

Financial and service performance

PCE’s total revenue for 2015/16 was $3.209 million. This sum was 0.4 percent more than in the previous financial year. PCE’s total expenditure was $3.196 million, resulting in a surplus of $13,000. This compares with a $2,000 deficit in 2014/15.

We note that in the Office of the Auditor-General’s 2015/16 audit of PCE, it recommended that “improvements be made to the service performance information reported in the Annual Report”. We look forward to seeing PCE make improvements in this area.

Responses to PCE’s report on sea level rise

In November 2015 PCE presented a climate change report entitled “Preparing New Zealand for rising seas: Certainty and Uncertainty”. We considered the report in early 2016. The report made a recommendation to the Minister of Finance to “establish a working group to assess and prepare for the economic and fiscal implications of sea level rise”. We asked what progress has been made to implement this recommendation.

We were pleased to hear that the commissioner has discussed the proposed working group with Treasury officials. We were also interested in the commissioner’s opinion that “the message is getting through” to the insurance and banking sectors about the risk of rising seas. PCE’s director of research and analysis added that the banking sector may be setting up its own infrastructure working group.

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We are also interested in how local authorities are responding to the sea level rise report. We heard that the commissioner has spoken to many councils—including the mayors of metropolitan areas and climate change “hotspots” such as the Kāpiti Coast—but has not engaged with all of New Zealand’s local authorities about this report. PCE stressed that although the councils appreciate gaining a deeper understanding of the issues, the recommendations in its report are directed at central government.

We asked PCE whether any follow up work is planned. We heard that an update report will be considered after the Ministry for the Environment releases its updated guidelines on sea level rise. These are expected to be released in early 2017.

**Impact of the Environmental Reporting Act 2015**

We are pleased that PCE has already published two commentaries on Government state of the environment reports: one published in March 2015, on the “Air Domain Report” of 2014; and a second published in June 2016, on “Environment Aotearoa 2015”. PCE is now investigating the 2016 “Marine Domain Report”. Like the commissioner, we find it encouraging that the marine report identifies key concerns and priorities, rather than merely presenting raw data. We heard that PCE is considering whether it would be valuable for it to produce a commentary on the Marine Domain Report. We note that the key issue of New Zealand’s seabirds will be addressed in an imminent PCE report on native birds.

This was our first annual review of PCE since the enactment of the Environmental Reporting Act 2015. PCE was provided with $450,000 in additional funding for both 2014/15 and 2015/16 to facilitate the Act’s new requirements. This funding was initially to have been reduced to $300,000 in the 2016/17 budget and onwards. However, in March 2016, the Officers of Parliament Committee reassessed this planned funding and recommended increasing PCE’s environmental reporting budget. This recommendation was based on PCE’s assessment of the work entailed in producing its first commentary. The committee recommended bringing PCE’s total proposed budget for environmental reporting up to $550,000 per annum.²

**Planning for the transition to a new commissioner**

As noted above, the commissioner is reaching the end of 10 years’ service in her role. It is expected that a new commissioner will be sworn in around mid-2017. The commissioner explained that she has been preparing PCE financially and organisationally for the transition. PCE has prepared a suite of possible investigations that the incoming commissioner could select from. They include:

- soil cadmium levels
- the effects of a warming world
- pest plants, including wilding trees
- the effects of sedimentation on water quality
- effective management of diffuse pollutants in the agricultural sector

New Zealand’s environmental responsibilities in Antarctica and the Southern Ocean. PCE’s annual report indicated that the intention behind preparing a series of potential investigations is to “leave the incoming commissioner with the flexibility to chart his or her own course in the role”. We are pleased with PCE’s approach to this transition. We look forward to seeing the course the new commissioner chooses to take.

Acknowledging the outgoing commissioner
As this was Dr Jan Wright’s final annual review as the commissioner, we wish to acknowledge her exceptional and dedicated work over the last decade. The commissioner has presented many reports and submissions to this committee over her time in the role. Her work has enabled us, and all New Zealand’s parliamentarians, to gain a deeper and better understanding of New Zealand’s environmental challenges. We acknowledge her efforts in engaging with the New Zealand public and integrating Māori culture into environmental governance. We look forward to considering Dr Wright’s final reports as commissioner in 2017.

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Appendix

Committee procedure

We met on 10 November 2016 and 23 March 2017 to consider the annual review of the Parliamentary Commissioner for the Environment. We heard evidence from the commissioner and received advice from the Office of the Auditor-General.

Committee members

Scott Simpson (Chairperson)
Andrew Bayly
Matt Doocy
Hon Craig Foss
Joanne Hayes
Tutehounuku Korako
Ron Mark
Mojo Mathers
Eugenie Sage
Meka Whaitiri
Dr Megan Woods

Hon David Parker, Sarah Dowie, and Paul Foster-Bell participated in the consideration of this item of business

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Organisation briefing paper, prepared by committee staff, dated 8 November 2016.

Parliamentary Commissioner for the Environment, Responses to written questions 1–105, received 8 November 2016.

Parliamentary Commissioner for the Environment, Responses to supplementary questions 1–6, received 24 January 2017.
2015/16 Annual review of the Ministry of Defence and the New Zealand Defence Force

Report of the Foreign Affairs, Defence and Trade Committee

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Ministry of Defence and New Zealand Defence Force

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2015/16 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 three parts to reflect the joint and separate respective operations of the two entities under review. Part A covers the damage to Freyberg House, affecting both organisations, while Part B covers the 2015/16 performance of the Ministry of Defence. Part C focuses on the performance of the New Zealand Defence Force (NZDF) for the same period.

We would like to begin by extending our thanks to those serving in New Zealand’s defence forces, both in New Zealand and offshore, for the work they do in a rapidly changing, complex global environment.

Part A: Earthquake damage to Freyberg House

After the 14 November 2016 earthquake the Ministry of Defence and the NZDF were forced to vacate their headquarters in Freyberg House, Wellington. We asked about the extent of the damage to the building and how this has affected both organisations’ ability to function.

We heard that the ministry and the NZDF did not know how long the building would be out of use as they were waiting on engineers’ assessments to find out the full extent of the damage. The assessment process will identify the extent of damage to the building and identify options for remediation. With the headquarters unavailable, about 300 out of 800 central Wellington-based staff had to work from home in the early weeks following the earthquake. However, we were assured that this has had only a minor effect on the organisations’ ability to function. Thanks to the resilience of the organisations’ IT infrastructure, staff maintained connectedness and were able to perform their roles effectively from home. The ministry and the NZDF have since relocated home-based staff into temporary offices.

Following our hearing, the building owner announced that Freyberg House will be demolished. The owner said that the building can be repaired but the cost is not economically viable. The ministry and the NZDF are considering long-term options to accommodate affected staff.

Part B: Ministry of Defence

The Ministry of Defence provides advice to the Government on the defence of New Zealand and on New Zealand’s efforts to enhance the security of other nations. The ministry manages the procurement, replacement, and repair of military equipment, and audits the performance of the NZDF.
In 2015/16, the ministry’s total income was $14.811 million. Its total expenses were $14.773 million, resulting in a net surplus of $38,000.

The Auditor-General downgraded its rating of the ministry’s management control environment and financial information systems and controls from “very good” in 2014/15 to “good” in 2015/16. The ministry has received previous recommendations for improvement in these areas which it has yet to fully implement. The ministry’s rating for its service performance information and associated systems remained “good”.

** Defence Capability Plan**

The Defence Capability Plan (published in November 2016) details the Government’s planned $20 billion investment in capability through to 2030, as proposed in the Defence White Paper published in May 2016.

**Opportunities for review**

We asked if the ministry has measures in place to review the plan through to 2030, to take into account technological changes and improvements that may occur in that time. We heard that, in preparing a white paper every five years, the defence organisations review the capability plan to assess the adequacy of NZDF’s structure and the range of capabilities it needs for the future. Additionally, mid-cycle reviews of the plan take place every two-and-a-half years.

**Risks to delivery**

We discussed the main risks involved in delivering on the capability plan and how they should be mitigated. The plan involves modernising and replacing all of the NZDF’s major assets.

The ministry is strengthening its ability to ensure the plan is delivered successfully. Using funding from Budget 2015 of $27 million over four years, it employed 25 new staff in 2016, and a further 30 will be employed in 2017. We heard that with new project directors, programme managers, and staff in specialist areas such as finance, risk, and practice management, the ministry will be well placed to handle the large increase in staff and project funds required to deliver on the capability plan.

**Equipment acquisition**

We asked what decisions had been made so far about the acquisition of new equipment, as outlined in the capability plan. We heard that the ministry has entered into six major commitments since the release of the White Paper, and has signed contracts worth over $500 million in the six months since June 2016. While project teams have begun investigating further procurement options, the work involved is intensive and it can take up to two years before a final decision is made.

**Flexibility of spending**

We asked how much discretion the ministry will have over its spending under the capability plan. The ministry said that the plan outlines the phasing of projects, and the $20 billion will be drawn down depending on which phase projects are at.¹ Projects in the

procurement phase will demand much higher spending than those in the pre-acquisition phase.

**Part C: New Zealand Defence Force**

The New Zealand Defence Force (NZDF) provides armed forces to defend New Zealand and its national interests, and to support United Nations and other multi-national operations.

The NZDF’s total income in 2015/16 was $2.484 billion. Its total expenses were $2.468 billion, resulting in a net surplus of $16 million.

The Auditor-General assessed the NZDF’s management control environment as “good”, its financial information systems and controls as “good”, and its service performance information and associated systems and controls as “good”. We note that the auditors have made several recommendations for improvements. We hope to see these acted on by the time of our next review.

**Breach of the Public Finance Act**

Under the Public Finance Act 1989, government departments must provide an annual report to the Auditor-General within two months after the financial year. The NZDF breached this deadline in 2016. We asked why this happened.

We heard that the delay in providing the annual report arose from complexities involved in revaluing the NZDF’s land and buildings. The revaluation task is complicated by the fact that many of the properties owned by the NZDF (such as the naval base at Devonport and the air base at Whenuapai) are in residential zones but are considered special purpose land.

The Treasury and the Office of the Auditor-General assisted with the additional work needed to determine the increase in values since the previous valuation in 2013.

We note that the current NZDF policy is to revalue its land and buildings every five years. We heard that the organisation is currently undertaking a full revaluation of its land and buildings and we have been assured that the timing of each valuation will be brought forward. We heard that they will now move to an annual revaluation of land and buildings, and we welcome this change. We trust that these changes will ensure timely reporting in the years to come.

**Adequacy of defence capability investment**

We asked if the Government’s $20 billion investment in defence capabilities is sufficient for the NZDF to be able to meet any new challenges, and to acquire technologies that may develop over the next fifteen years. We heard that the Secretary of Defence and the Chief of Defence Force are committed to ensuring that the Government’s financial commitment is used effectively to respond to New Zealand’s risk environment. The defence organisations undertook risk assessments while producing the Defence Mid-point Rebalancing Review White Paper 2010, and the 2016 White Paper. Both defence organisations are satisfied that the $20 billion investment will be adequate for the NZDF to address the perceived risk environment through to 2030.

**Response to the Kaikōura earthquake**

The NZDF played a major role in the Government’s response to the 14 November earthquake, which affected Kaikōura and Wellington in particular. Approximately 900 NZDF personnel, with naval support from Australia, Canada, and the United States,
delivered 600 tonnes of aid to Kaikōura, and evacuated more than 1,000 people. This was achieved even though the headquarters in Freyberg House had been vacated.

**Preparedness of deployed forces**

We discussed the preparedness of the forces deployed to Kaikōura and whether any lessons could be learned from the NZDF’s emergency response. We heard that the response was fast and effective. NZDF personnel were in Kaikōura within 24 hours after the earthquake, and they immediately began working with organisations such as Civil Defence, the Ministry of Health, local councils, the Red Cross, and others to identify the most pressing priorities. This collaborative approach allowed for a structured, timely response to the situation.

**Training and equipment**

Given the exceptional circumstances in Kaikōura, we asked whether the forces deployed were sufficiently trained and equipped for such an operation. The Chief of Defence Force told us he is very confident in the training and the equipment of the defence forces. NZDF forces are very adaptable because they must be prepared to face a range of situations, such as combat, civil disorder, and disaster relief. Recent experience in Tonga, Vanuatu, and Fiji following damaging cyclones, and a history of responding to disasters within New Zealand, has helped the NZDF to develop its capability to support organisations on the ground such as Civil Defence in New Zealand, and the Red Cross internationally. The NZDF has also recently worked to build complementary capabilities with Australia to improve disaster response in both countries and the wider Pacific.

**Funding and capabilities**

We discussed whether the earthquake would lead to any changes in the allocation of funds under the Defence Capability Plan. Some of us asked whether extra funding is needed to further improve capability. We heard that significant emphasis was placed on disaster relief and humanitarian assistance in the Defence White Paper. The capability plan reflects this in the investment in the Navy’s Maritime Sustainment Capability. This will enable the delivery of stores and supplies should the HMNZS Canterbury be unavailable. The NZDF also has strong partnerships with other countries which can be counted on in times of need. This was demonstrated by the assistance provided in Kaikōura from Australia, Canada, and the United States.

Some of us pointed out that it was fortunate the New Zealand Navy was celebrating its 75th anniversary at the time the earthquake struck, so that our close allies’ naval ships were immediately available to assist. The Chief of Defence Force acknowledged that this would not usually be the case, but that it was an ideal situation. However, he is confident that the NZDF has the capability to respond to disasters in New Zealand on its own. The response plan would have simply been adapted had foreign ships not been in the country at the time.
Appendix

Committee procedure
We met on 8 December 2016 and 16 March 2017 to consider the annual reviews of the Ministry of Defence and the New Zealand Defence Force. We heard evidence from both organisations, and received advice from the Office of the Auditor-General.

Committee members
Todd Muller (Chairperson)
Hon Jacqui Dean
Hon Jo Goodhew
Dr Kennedy Graham
Hon Annette King
Hon David Parker
Dr Shane Reti
Jami-Lee Ross
Fletcher Tabuteau
Lindsay Tisch

Evidence and advice received
The documents that we received as advice and evidence for these annual reviews are available on the Parliament website, www.parliament.nz. They are listed below:


Organisation briefing paper, prepared by committee staff, dated 6 December 2016.

Ministry of Defence, Responses to committee questions, received 5 December 2016 and 27 January 2017.

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Ministry of Foreign Affairs and Trade

Recommendation
The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Foreign Affairs and Trade, and recommends that the House take note of its report.

Introduction to the work of the ministry
The Ministry of Foreign Affairs and Trade promotes and protects New Zealand’s interests overseas, seeking to make New Zealanders safer and more prosperous. It does this by operating an international network of 57 posts in 50 countries—with 118 accreditations to other countries and 75 honorary consuls.

The ministry works on foreign affairs, trade, and climate change issues. Its foreign affairs work includes managing New Zealand’s official development assistance, and disarmament and arms control.

The ministry’s services include administering diplomatic privileges and immunities, consular services, the Pacific Security Fund, policy advice and international representation, promotional activities, and services for other New Zealand agencies overseas.

Financial overview and audit results
In 2015/16, the ministry’s total income was $395.3 million and its total expenses were $394.1 million, resulting in a net surplus of $1.15 million.

Office of the Auditor-General: results of the annual audit
The Auditor-General assessed the ministry’s management control environment, financial systems and controls, and performance information and associated systems and controls as good. The auditor recommended that some improvements be made.

Support for Security Council resolution on Israeli settlements
We discussed New Zealand’s support for 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.

All Security Council members voted for the resolution except for the United States of America (USA), which abstained. Israel retaliated with a series of diplomatic actions against some members of the Security Council, including New Zealand.

The resolution was adopted on 23 December 2016, just before New Zealand finished its two-year term on the Security Council. We asked about New Zealand’s role on this issue after its Security Council term. We heard that Gerard van Bohemen, New Zealand Permanent Representative to the United Nations, likens leaving the Security Council to “drawing a sword from water”, in that a lot of a country’s influence evaporates.

However, the ministry said that New Zealand will continue to advocate strongly for a two-State solution and the resumption of negotiations towards this. It will also speak out against settlements when they thwart the achievement of that objective. New Zealand will
also speak out about other matters the resolution deals with, including incitement and acts of terror and violence committed by both sides.

**USA position on the illegal Israeli settlements**

We asked for an update on the USA’s position on the illegal Israeli settlements, considering the change in the USA’s administration and the seemingly bolder efforts by Israel to try to legitimise some of the illegal settlements.

The ministry said that, just 19 days into the new administration, it was too early to tell, not least because the administration is shifting its position on issues such as settlements. However, New Zealand has to be confident in its own settings and interests, and get on with the job.

**New Zealand’s representation of small island developing States on Security Council**

The votes received from many small island developing States were influential in New Zealand becoming a non-permanent member of the UN Security Council for two years (from 1 January 2015 to 31 December 2016).

We asked whether New Zealand had successfully represented those countries’ interests while on the Security Council. The answer was “yes”, according to feedback received from the countries concerned.

The highlight of New Zealand’s efforts to champion the small States’ causes was a Security Council debate on the security challenges faced by small island developing States, including those States from the Pacific, the Caribbean, and the Indian Ocean.

This was a bold thing for New Zealand to do in July 2015 during its first period presiding over the Security Council, particularly considering the initial resistance from some Security Council members about whether the issues even constituted traditional threats to international peace and security.

The debate was the first time many of the small States had ever spoken at a Security Council meeting, so New Zealand held regular briefings to make sure that the countries knew what was happening inside the council.

Although it is hard to know how the small island developing States would vote in the future, the ministry is confident that New Zealand left the Security Council with strong support from these countries. The challenge now is to maintain the relationships and keep delivering.

**Work on a free trade agreement with the European Union**

We asked why New Zealand does not yet have a free trade agreement (FTA) with the European Union (EU). We heard that the economic and political reality is that the EU is sensitive about the agricultural products New Zealand trades in, particularly sheep meat and butter. In the past, this has resulted in a lack of enthusiasm from the EU for an FTA with New Zealand.

However, recent public statements from EU representatives now support concluding an FTA with New Zealand within two or three years, which is reasonably quick by European standards. New Zealand’s links with other countries, particularly in Asia, make this country more of an attractive prospect, and there is genuine two-way interest to advance negotiations. The intent is to launch the negotiations some time in 2017.
Implications of European Court of Justice decision about approval of trade agreements

In December 2016, an Advocate General of the Court of Justice of the EU concluded that an FTA with Singapore could be finalised only by the EU and its member States, and not by Brussels institutions acting alone. This would mean that the EU’s 28 national parliaments would each have to ratify the agreement. We asked about the implications of this for New Zealand.

The ministry said that, after studying the ruling, the EU may want to consider changing the way it structures its agreements. The institutions in Brussels and the many member States make Europe a complicated place to deal with. Therefore, the ministry is looking to reinforce its capability in important capitals in Europe, including placing a trade expert in London.

Tailoring an Investor–State dispute settlement scheme

The EU’s approach to Investor–State dispute settlement differs to the way New Zealand has addressed this in its FTAs. The ministry will work with the EU to discuss how the approaches vary, and on a mutually agreeable solution.

Auditor-General Inquiry into the Saudi Arabia Food Security Partnership

In October 2016, the Office of the Auditor-General published a report on the Inquiry into the Saudi Arabia Food Security Partnership. We considered the following passages from the report:

The intention behind Mr McCully’s early negotiations with Sheikh Hmood was to find a “commercial solution” to address Sheikh Hmood’s sense of grievance. However, we did not find evidence of officials’ real analysis of other options. We also did not find evidence of Ministers or officials requesting or receiving internal or external legal advice on the extent of the risk of a claim for compensation from the Al Khalaf Group against the Government. [Paragraph 3.42, page 39]

In our view, a consequence of the shortcomings of the Cabinet paper was that the settlement component relating to the grievance was not reflected in any subsequent arrangements. This lack of transparency about how the contract for services would settle the dispute has led to the concerns from the New Zealand public about the nature of the payments made. [Paragraph 3.46, page 40]

We asked the Secretary of Foreign Affairs and Trade, Brook Barrington, whether he accepts the Auditor-General’s criticisms. The secretary said that the ministry accepts the Auditor-General’s report. The secretary referred to his opening remarks to us about the importance of having strong institutions in New Zealand, including the Office of the Auditor-General.

We asked the secretary whether he knew about a briefing note received under the Official Information Act 1982 that provided advice on how to deflect questions from committee members at last year’s annual review hearing. The briefing note referred to questions about whether there was any legitimacy to the claim that the payments settled a real legal threat against the Government.

The secretary said he did not know of, and had not seen, that document. He also said the ministry claims legal privilege both as to the content of legal advice and whether any such legal advice existed.
The Labour members believe the ministry was not sufficiently open with the committee at last year’s examination. The Labour members also believe the ministry blocked the committee’s attempts to get to the bottom of the Saudi sheep deal, and the Auditor-General eventually did, but that is no excuse for obstructing the annual review role of this committee.

In response to concerns raised about the previous year’s annual review Mr Barrington said, “On that basis [that the advice was legally privileged] it would have been inappropriate for us to have gone down that path in the committee.” Mr Barrington also emphasised that the Auditor-General looked at all of the materials, spoke to all of the people, drew conclusions, and the ministry accepts that report. Mr Barrington also said that he regrets that some members felt they were “blocked”.

**The future of the Trans-Pacific Partnership Agreement**

We discussed the future of the Trans-Pacific Partnership Agreement (TPPA) after the USA withdrew from the agreement. We heard that, even without the USA, the TPPA still has considerable economic and strategic value. The USA would have contributed one-third of the value of the TPPA.

The ministry intends to talk with the other 11 signatories to the agreement about how they want to progress it. Initial conversations indicate that other signatories are keen to progress the agreement and that there is also an interest in seeing whether the USA may again become a member in the future.

**Progress on the Regional Comprehensive Economic Partnership**

We asked whether the USA leaving the TPPA presents an opportunity to accelerate negotiations on the Regional Comprehensive Economic Partnership (RCEP). RCEP is a proposed FTA between the 10 member states of the Association of Southeast Asian Nations (ASEAN), and the six states with which ASEAN has existing FTAs (Australia, China, India, Japan, South Korea, and New Zealand). The countries will soon meet to discuss how they now want to approach the situation.

We heard that regional agreements provide for a more common set of rules concerning some of the non-tariff barriers. These rules can reduce costs for exporters looking to trade in the region. This is particularly valuable to small and medium-sized exporters, which is why New Zealand is interested in progressing a high-standard RCEP agreement. Regional agreements also provide stability and security benefits.

**The possibility of a trade arrangement with the USA**

We discussed the possibility of a trade arrangement with the USA. New Zealand has long been interested in a trade arrangement with the USA, and if there were a genuine offer on the table New Zealand would certainly be interested in looking at it.

If the areas covered in the TPPA, such as intellectual property and pharmaceuticals, were introduced in a bilateral context with the USA, the ministry’s negotiators would again look to represent New Zealand’s interests.

**Investment provision in free trade agreement with South Korea**

The FTA between New Zealand and South Korea allows South Korea to stop New Zealanders buying South Korean houses. It also includes a provision that stops New Zealand adding new categories of investment that are screened or banned.
The ministry has indicated that this would stop New Zealand banning South Koreans from buying New Zealand homes. The TPPA also conceded New Zealand’s rights to ban foreign buyers of New Zealand land from those TPPA countries.

The FTA with China was delayed while Cabinet received confirmation from the ministry that New Zealand’s right to control overseas buyers of New Zealand houses under that agreement was protected. However, the most-favoured-nation clause in the FTA with China says that more beneficial provisions, such as that in the South Korean agreement, can be claimed by China.

We asked the ministry to comment on whether New Zealand would have been able to retain the right for New Zealand to stop Koreans buying New Zealand houses, considering that Korea has retained this right and also gave it to Australia. The ministry said that it would come back to us with a detailed response. The response received did not deny that the South Korean provisions flow through to the China FTA pursuant to its most-favoured-nation clause.

Some of us believe that future Governments should be able to ban non-resident overseas buyers of New Zealand homes, as China and South Korea can. Some of us also believe that the renegotiation of the China FTA should protect this sovereign right for future New Zealand Governments to so do.

However, the majority of us believe that there are policy tools available to restrict the purchase of property by non-residents.

**Improving consultation on trade agreements**

We discussed improving consultation with the public on trade agreements, in light of the new Minister of Trade’s emphasis on consultation with the public and industry sector groups.

The ministry said that it is always looking to improve its consultation and engagement. For example, recent work to refresh the trade policy strategy has involved open public meetings and detailed consultation with stakeholders. It has also used digital techniques more.

**Addressing non-tariff barriers**

We discussed the ministry’s work to address non-tariff barriers. This is a priority in the export markets part of the Government’s Business Growth Agenda. The ministry coordinates this work between several agencies.

The ministry said that it is important to understand the specific barriers that affect goods and services exporters. These barriers are then dealt with by considering whether the particular measure goes against the rules within either a particular FTA or the World Trade Organisation. If it does, efforts are made to challenge the situation and to try to get it changed.

However, a particular measure will often be within what is permissible, but it may unnecessarily affect New Zealand’s trade. There may be another way for the other Government to achieve its objective with less effect on exporters, and New Zealand’s regulatory agency begins discussions with the other country’s equivalent agency to find a solution.

Addressing non-tariff barriers can be time consuming, and the ministry has increased its resources in this area. The Ministry for Primary Industries and several other government
agencies have done the same. One of the suggestions in the refresh of the trade policy strategy is to put more resources into this area.

In responding to our additional question number 15, the ministry has provided some examples of wins it has had in addressing non-tariff barriers. These include a World Trade Organisation (WTO) Dispute Settlement Panel ruling in New Zealand’s favour regarding 18 agricultural non-tariff barriers imposed by Indonesia. This is worth between $500 million and $1 billion in beef exports. New Zealand was also successful in getting an assurance that the Liquor Control Board of Ontario would not introduce variable pricing or flexible mark-ups. This would have disadvantaged New Zealand’s wine exports to Ontario which are estimated to be up to $60 million.

New Zealand’s leadership on nuclear disarmament

We discussed the strength of New Zealand’s work in nuclear disarmament. New Zealand has a very good voting record in the General Assembly at the UN in supporting resolutions on disarmament and nuclear non-proliferation. This country is one of 50 countries working on the Treaty on the Non-proliferation of Nuclear Weapons, which seeks to prevent the spread of nuclear weapons and to work towards nuclear disarmament.

New Zealand is also working to see that membership of the Nuclear Suppliers Group is permissible only on the same terms as membership of the non-proliferation treaty. The Nuclear Suppliers Group is a group of nuclear supplier countries that seek to prevent nuclear proliferation by controlling the export of materials, equipment, and technology that can be used to manufacture nuclear weapons.

New Zealand’s relationship with the USA under the Trump administration

We asked the ministry how it expects New Zealand’s relationship with the USA to develop under the Trump administration. The ministry said that, after just 19 days, and with 1,220 positions needing to be confirmed by the US Senate, the US administration had a long way to go in its transition from improvisation to organisation.

The secretary reiterated that New Zealand has its own national interests, agenda, and priorities to pursue and must hold its course and “not be buffeted by the winds that blow from other capitals”. He said that there are significant areas of longstanding cooperation with the USA, including the East Asia Summit, APEC (the Asia-Pacific Economic Cooperation forum), and Antarctica, that he expects to continue.

The ministry has set up a taskforce to enable 24/7 real-time monitoring of the situation, including establishing where New Zealand’s interests lie and how they might be affected. The secretary said that New Zealand has never hesitated to disagree with the USA on issues that matter, and he does not expect that to change. The taskforce will continue until the ministry has “a clearer sense of the lie of the land”.

Organisational performance targets not met

We discussed the ministry’s failure to meet its targets in responding to requests under the Official Information Act 1982, answering ministerial correspondence within the set time frame, and providing forward aid plans to partner Governments on time.

The secretary said that he is not satisfied with the ministry’s performance in these areas. Last year, the high volume of work, and its technical nature, made meeting some of the targets challenging. However, the secretary is holding people to account, and the ministry’s performance is improving.
Lower capital expenditure than budgeted for

In 2015/16, the ministry was allocated $72.96 million for capital expenditure. It spent only $41.64 million of that because of construction delays with property projects in Beijing, Canberra, and Manila. Spending on capital works has been below the budgeted amounts for the past five years. We asked whether this underspending has affected the ministry’s presence around the world.

The secretary said that underspending on capital projects is a trend. However, although the forecasting could be improved, the secretary is satisfied that the ministry’s investment in capital works throughout the international network of 57 posts is keeping those posts in order so that ministry staff can do their job.
Appendix

Committee procedure
We met on 9 February and 23 March 2017 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
Todd Muller (Chairperson)
Hon Jacqui Dean
Hon Jo Goodhew
Dr Kennedy Graham
Hon Annette King
Hon David Parker
Dr Shane Reti
Jami-Lee Ross
Fletcher Tabuteau
Lindsay Tisch

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Organisation briefing paper, prepared by committee staff, dated 7 February 2017.

Ministry of Foreign Affairs and Trade, Responses to written questions, received on 31 January and 13 March 2017.
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New Zealand Customs Service

Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Customs Service, and recommends that the House take note of its report.

Introduction to the New Zealand Customs Service

The New Zealand Customs Service has three main functions:

- protecting New Zealand’s border
- promoting and facilitating secure and efficient trade and travel
- collecting Crown revenue.

In delivering these functions, Customs seeks to balance protecting New Zealand from external risks and threats at the border against facilitating legitimate trade and travel with minimal disruption.

Financial overview and audit results

In 2015/16, Customs’ total income was $178.349 million. Its total expenses were $172.056 million. This resulted in a surplus of $6.293 million. This was because of increased revenue after the introduction of the Border Clearance Levy on 1 January 2016.

Office of the Auditor-General: results of the annual audit

The Auditor-General assessed Customs’ management control environment and financial information systems and controls as “very good”. The auditor rated Customs’ performance information and associated systems and controls as “good”.

The auditor recommended that Customs make its performance measures clearer and improve the links between its strategic priorities and measures of success.

2015/16 a busy year for Customs

We heard that Customs had a busy year in which passenger volumes increased, interceptions of illicit drugs at the border grew, and Crown revenue collected by Customs rose.

The statistics reveal the increased demands on Customs in 2015/16:

- A record 12.766 million international travellers were processed, an increase of 8.2 percent from the 2014/15 total.
- The number of passengers using SmartGate increased by 15 percent from the 2014/15 total to 4.464 million people.
- Seizures of methamphetamine increased to 291.9 kilograms, compared with 184.7 kilograms the previous year. Seizures of precursors amounted to 1,153 kilograms, up from 698 kilograms in 2014/15.
Customs collected a total of $13.18 billion in revenue on behalf of the Crown in 2015/16, an increase of 5.6 percent from the previous year.

**Staff engagement continues to drop**

We are concerned that Customs’ staff engagement surveys show that engagement is continuing to drop. The survey in October 2015 showed that engagement had fallen to 59 percent, down from 60.7 percent in the 2014 survey and below the State sector benchmark of 68 percent. Staff identified a lack of career opportunities and dissatisfaction with their pay as their two main areas of concern.

We asked what Customs is doing to address this situation. Customs said that it is also concerned about the poor staff engagement levels and has been working on its Operations Transformation Programme to provide a more effective operating model that focuses on the two issues of concern.

The organisation’s new collective employment agreement (ratified in early 2016/17) enables Customs to implement a programme to improve progression opportunities for staff. The agreement addresses remuneration concerns by restructuring the remuneration system. We heard that about 78 percent of Customs’ staff have signed up to the collective employment agreement and that other staff will also benefit from the improvements.

We were told that the next engagement survey will be completed in April 2017, with feedback and review completed in a further four to six weeks.

**New Zealanders being unfairly treated at the border**

Some members reported that their constituents had received unfair treatment that had delayed them at the border. We asked Customs to address its internal systems to ensure that all New Zealanders receive the respect and treatment they deserve. Customs does not screen people on the basis of race or skin colour but does screen them according to the countries they have visited.

The Comptroller of Customs also expressed her disappointment at the feedback from these constituents. She said that Customs always tries to treat people at the border with respect and not delay them unduly. She also said that 99 percent of people move across the border without intervention from Customs. Customs will look into the concerns more fully.

**Interception of illicit drugs**

We suggested that, although Customs has intercepted more illicit drugs at the border, the Police would say that this is just the tip of an iceberg and that it has made no difference to the price and availability of these drugs. We asked what plans Customs has to tackle this problem and whether it needs more resources to do so.

The Comptroller said that Customs does not need more resources at the moment. This year, Customs received funding for 100 additional positions, including new assistant Customs officers to free up qualified Customs officers to do more enforcement work.

We heard that Customs takes a “layered response” to intercepting illicit drugs. This includes investing in more detector dogs, doing targeting and profiling work using the Integrated Targeting and Operations Centre in Auckland, and creating offshore posts in Washington and Hong Kong.
However, the nature of the organised criminal community that deals in illicit drugs makes it difficult to get a good understanding of what comes across the border.

We discussed the shift towards importing methamphetamine rather than its precursors, ephedrine or pseudoephedrine, and the resources being put into intercepting drugs. Overall, Customs has about 1,130 people who try to find drugs every day. In particular, about 50 people work in Customs’ investigations unit; 20 people in the intelligence analytics group work in the drugs area, and the data analytics group has eight people.

The new inter-agency border analytics group looks at a combination of patterns with trade and travellers to help intercept illicit drugs.

We heard that larger seizures are usually the result of long investigations, often with other jurisdictions. These investigations often involve sharing information with offshore partners. The “Five Eyes” partners have a border group that meets at least twice a year to swap information about modes of operation, develop profiles, and automate the way decisions are made about where to intervene.

We asked what more could be done to scale up the interception of methamphetamine and its precursors. Customs said it has developed an Intelligent Enforcement Strategy that is intelligence-led, involves working with domestic and international partners, focuses on prevention by disrupting drug syndicates offshore, and prioritises methamphetamine appropriately.

**Transport of methamphetamine through regional domestic airports**

We asked what Customs is doing to address the flow of methamphetamine through regional domestic airports that do not have the security systems of New Zealand’s larger airports.

We heard that Customs is part of the Police-led Gang Intelligence Centre, which focuses on the movement of drugs. Customs also works with a wide range of agencies on the Government’s Methamphetamine Action Plan and is part of an inter-agency committee on drugs that develops operations and initiatives. For example, legislative change is being sought so that detector dogs can be used at domestic airports.

Each agency has a different role, with Customs working primarily at the border and the Police covering the domestic market. Relationships with the different agencies are well developed, and people work between agencies.

**Integration of border requirements and biosecurity**

We discussed biosecurity and which agency is responsible for this. Although a common system, the Trade Single Window, provides for the integration of border requirements, biosecurity risks are the responsibility of the Ministry for Primary Industries (MPI).

When a trader enters information into the Trade Single Window—for example, about a ship arriving—several agencies view and share that information. The various border requirements, including those needed to keep trade flowing, carry out enforcement, and deal with biosecurity issues, are addressed by the responsible agencies.

MPI officers in the Integrated Targeting Operations Centre in Auckland use the information in the system for targeting, profiling, and planning biosecurity matters. We heard that MPI and Customs officers are co-located, which supports good cooperation and collaboration.
How Proceeds of Crime funding benefits Customs

We were interested in how Customs has benefited from the Proceeds of Crime funding. We heard that Customs received $2.78 million in the most recent allocation of funding. It is using this funding to place a Customs liaison officer in Hong Kong and a Customs employee in the international targeting centre in Washington.

The Hong Kong position is important because China is a main source country for methamphetamine, and the person in Washington will monitor information about drug flows from South America.

Customs also received funding for a dedicated examination and exhibition facility in Auckland.

We discussed the process used to receive this funding. We heard that an inter-agency committee on drugs, chaired by the Ministry of Health, coordinates applications from agencies for the one-off Proceeds of Crime funding.

Customs runs an internal process to determine which bids it wants to put forward, and these are discussed with the Minister in terms of how they align with Customs’ priorities. The chief executives on the inter-agency committee select from the initiatives put forward.

In 2015, a total of about $7 million was available for Proceeds of Crime-funded initiatives from all government agencies.

Dealing with goods infringing intellectual property rights

We discussed the high number of counterfeit goods intercepted at the border, 53,000 in 2015/16, and the difficulty in quantifying the value of those goods. We heard that the World Customs organisation has identified counterfeit goods as one of the global issues faced by Customs jurisdictions.

That organisation produces glossaries that Customs officers have on their mobile devices. This helps them to determine whether goods are likely to be counterfeit or legitimate items. A medical officer is also available to help determine the legitimacy of medications.

Customs intercepts and seizes counterfeit goods and refers them to the person who holds the intellectual property rights for their determination.
Appendix

Committee procedure

We met on 8 December 2016 and 16 March 2017 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

Todd Muller (Chairperson)
Hon Jacqui Dean
Hon Jo Goodhew
Dr Kennedy Graham
Hon Annette King
Hon David Parker
Dr Shane Reti
Jami-Lee Ross
Fletcher Tabuteau
Lindsay Tisch

Evidence and advice received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the New Zealand Customs Service, dated 8 December 2016.

Organisation briefing paper, prepared by committee staff, dated 5 December 2016.

New Zealand Customs Service, Responses to written questions, received 28 November 2016 and 24 January 2017.
2015/16 Annual review of the New Zealand Antarctic Institute

Report of the Foreign Affairs, Defence and Trade Committee

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Recommendation

The Foreign Affairs, Defence and Trade Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Antarctic Institute and recommends that the House take note of its report.

Introducing Antarctica New Zealand

Antarctica New Zealand is the trading name of the New Zealand Antarctic Institute, a Crown entity established under the New Zealand Antarctic Institute Act 1996. It is based in Christchurch, and is responsible for carrying out New Zealand’s activities in Antarctica and the Southern Ocean. This includes managing Scott Base, New Zealand’s Antarctic research station which supports science in the Ross Sea region.

The organisation is led by Peter Beggs, Chief Executive, and Brian Roche, Chairman of the Board.

Financial overview and audit results

In 2015/16 Antarctica New Zealand’s total revenue was $16.5 million, an increase of $136,000 on the previous year. Its total expenses were $17.6 million, resulting in a net deficit of $1.1 million. In 2014/15 Antarctica New Zealand recorded a $2.6 million deficit.

During the 2014/15 annual review we heard that the logistics involved with an increasingly ambitious science programme in remote locations meant Antarctica New Zealand was facing increased costs. It needed an estimated $3 million in 2016/17 to accommodate the additional costs.

The Budget announcement on 26 May 2016 confirmed that Antarctica New Zealand’s baseline funding would increase by $3.035 million to $18.3 million from July 2016. Further increases will result in a total funding increase of $16.7 million over four years. In particular, the additional funding will support science research projects conducted at relatively large distances from Scott Base.

Office of the Auditor-General: results of the annual audit

The Auditor-General rated Antarctica New Zealand’s management control environment and financial information systems and controls as very good, making no recommendations for improvement.

The auditor assessed Antarctica New Zealand’s performance information and associated systems and controls as good, recommending that the organisation maintain its approach of continuous improvement in setting performance objectives and measurement processes.

Progress on business case to upgrade Scott Base

We discussed the progress of the Better Business Case for the redevelopment of Scott Base, and heard that it has been examined by a Gateway review panel and given an amber/green status.
The Better Business Case will be developed over the next two years into a detailed business case at the end of 2018. We heard that Antarctica New Zealand has submitted a Budget bid for $6.14 million to the Minister of Foreign Affairs for the resources needed to do this work.

The chief executive said he has suggested to the chairman of the board and to the Minister that operating in Antarctica means special consideration needs to be given to procurement, the supply chain, and risk. Any redevelopment must also be considered in terms of its impact on New Zealand’s environmental protection of Antarctica, and that it does not compromise New Zealand’s scientific endeavour.

**Utilising corporate sponsorship**

We asked about Antarctica New Zealand’s corporate sponsorship and whether there is a strategy to build on this. The chief executive said he has not sought to increase Antarctica New Zealand’s income through corporate relationships. Instead he has sought and received financial assistance from the Government to address increasing demand and cost pressures.

However, the chief executive said he has received assistance from the corporate community to help Antarctica New Zealand reduce its costs. Antarctica New Zealand has corporate relationships with Air New Zealand, Icebreaker Merino, Microsoft, and Toyota New Zealand. Each of these businesses has contributed something which has helped to reduce Antarctica New Zealand’s costs.

Antarctica New Zealand is also using these organisations’ outreach channels to amplify its own messages. We heard that these organisations are very focused on environmental protection, and issues concerning Antarctica and climate change.

The chief executive said he may add another organisation to those with whom Antarctica New Zealand has corporate relationships.

**Revenue gained from user pays**

We asked whether Antarctica New Zealand receives any income from a user pays arrangement. We heard that the organisation receives about $300,000 each year from visitors who each pay $70 per night for food and basic accommodation.

The chief executive said the use of a wider user pays system has been contemplated. However, he said he would not want a user pays requirement to drive Antarctica New Zealand’s scientific outcome. Use of the joint logistics pool would also make it difficult to calculate costs accurately.

**Managing increased interest in visiting Antarctica**

We discussed the increasing interest from the science community and others in visiting Antarctica, and how Antarctica New Zealand is managing this. The chief executive said that Antarctica New Zealand is limited by only being able to provide accommodation for around 85 people. Its priority is the science community, but three years ago the organisation started a community engagement programme.

The engagement programme invites people who are interested in coming to Antarctica to explain how the outcome or output of their work aligns with Antarctica New Zealand’s statement of intent. This has resulted in a variety of people visiting Antarctica, including environmental artists. In January 2017, TEDxScottBase, an independently organised TED (Technology, Entertainment, Design) event, took place at Scott Base. This enabled
Antarctica New Zealand to reach people it normally would not by broadcasting video content from Scott Base around the world, including holding live viewing events in more than 60 locations.

**Value of the joint logistics pool**

We asked about the value of the joint logistics pool with the United States of America (USA). We heard that New Zealand’s involvement highlights its contribution as a confident and competent Antarctic Treaty partner, and means that assets are not unnecessarily duplicated. New Zealand’s contribution is Christchurch-centric, while the US contribution tends to be Antarctic-centric. An exception to this is that 60 percent of the energy produced by New Zealand’s wind farm on Ross Island, Antarctica, is used by the USA, with the remainder used by Scott Base.

We asked why New Zealand is “not always seen as pulling its weight” in terms of the joint logistics pool. The chief executive said that when some people see US aircraft coming from Christchurch carrying New Zealanders, they may conclude that New Zealand is wholly dependent on the USA. However, those same people do not see the more than 100 New Zealand Defence Force personnel who contribute to the joint logistics pool.

We heard that the pool does not take a “numeric balance sheet entry” approach. Instead the parties consider what feels right in terms of mutual support and collaboration. We heard that this is typical of how Antarctic nations cooperate.

**Strategic importance of science programme**

We discussed the importance of Antarctica New Zealand’s science programme in terms of New Zealand’s diplomatic relationships in Antarctica. We heard that New Zealand’s strength in the Antarctic Treaty system has benefited considerably from its scientific output and its environmental protection record in Antarctica. There is a direct correlation between Antarctica New Zealand’s science programme and where New Zealand sits in the Antarctic Treaty system.

The chief executive said that the countries with active science programmes have credibility and mana in the Antarctic Treaty system, and are in a strong leadership position. Of the 53 countries that are signatories to the Antarctic Treaty, 29 are consultative members with voting rights, including New Zealand.

The chief executive said that some Asian countries are showing an increasing interest in Antarctica. Korea has recently built in the Ross Sea region, and China has expressed an interest in building its fifth station there too. These countries are becoming more active in the Antarctic Treaty system, and are willing to work with New Zealand to learn more about its science community.

We discussed protecting against resource and mineral exploitation in Antarctica. The Antarctic Treaty prohibits this exploitation, and in 2016 the Santiago Declaration reaffirmed this. We heard that, without sanctions available under the treaty, it is diplomatic action that would prevent a country from exploiting Antarctica. This is where New Zealand’s strong standing and leadership in Antarctica is important.

**Higher emissions due to ambitious science programme**

We asked about Antarctica New Zealand’s progress in reducing its carbon emissions. We heard that Antarctica New Zealand’s more ambitious science programme is requiring it to
provide access to more remote areas of the continent, which means burning more fuel and producing more carbon emissions.

We pointed out the irony of increasing emissions to carry out science so we can understand what is going on in Antarctica. The chief executive said that Antarctica New Zealand strives to minimise its carbon footprint while achieving the science. In 2015, Antarctica New Zealand representatives attended a workshop on the greening of Antarctic stations. They considered how Antarctic stations could be made greener, and what would constitute good practice.

We heard that Antarctica New Zealand has rebalanced its Certified Emissions Measurement and Reduction Scheme (CEMARS) targets based on the expected logistics requirements of the scientific community. The CEMARS targets for the 2017/18 year seek to reduce the amount of carbon emissions relative to the scientific output.

We heard that there is no international obligation for Antarctica New Zealand to submit its carbon emissions, but best practice and leadership go a long way in the Antarctic Treaty system. Details of the emissions from Antarctica New Zealand’s Christchurch and Antarctic operations are available as part of the CEMARS reporting.

**Use of electric vehicles**

We understand that the USA uses electric vehicles at its base at McMurdo Station. The chief executive said because Scott Base is small enough to walk around, Antarctica New Zealand does not currently use electric vehicles there. However, the wider use of electric vehicles is likely to be considered as part of work on Antarctica New Zealand’s environmental footprint.

**Staff morale and development**

We asked about staff morale and development at Antarctica New Zealand, and heard that just a week prior to our hearing the organisation had received the results of its engagement survey. Antarctica New Zealand received a 100 percent score, with a 97 percent participation rate. This means that every person who took part in the survey is totally engaged with the organisation in terms of what they do and why they do it.

We heard that despite Antarctica New Zealand’s salaries perhaps not being as strong as those in the private sector, its staff are very hard working and willing to go the extra mile. We congratulated Antarctica New Zealand on its great engagement result, which we consider reflects how meaningful people see their roles in the organisation.

We heard that there is room for Antarctica New Zealand to improve in the provision of tools and processes people need to do their jobs. The organisation is working on improving its IT systems to support its people better.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the New Zealand Antarctic Institute. We heard evidence from the New Zealand Antarctic Institute and received advice from the Office of the Auditor-General.

Committee members
Todd Muller (Chairperson)
Hon Jacqui Dean
Hon Jo Goodhew
Dr Kennedy Graham
Hon Annette King
Hon David Parker
Dr Shane Reti
Jami-Lee Ross
Fletcher Tabuteau
Lindsay Tisch

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the New Zealand Antarctic Institute, dated 9 March 2017.

Organisation briefing paper, prepared by committee staff, dated 7 March 2017.

New Zealand Antarctic Institute, Responses to questions, received 14 February and 20 March 2017.

New Zealand Antarctic Institute, question 44 appendix, received 7 March 2017.
2015/16 Annual review of Crown Asset Management Limited

Report of the Finance and Expenditure Committee

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Crown Asset Management Limited, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Chris Bishop,
Chairperson
2015/16 Annual review of the Department of the Prime Minister and Cabinet

Report of the Government Administration Committee

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Department of the Prime Minister and Cabinet

Recommendation

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the Department of the Prime Minister and Cabinet, and recommends that the House take note of its report.

Introduction

The Department of the Prime Minister and Cabinet (DPMC) supports the Executive—the Prime Minister, the Governor-General, and the Cabinet. DPMC’s primary role is to provide advice, particularly on the Government’s policy priorities.

DPMC, along with the State Services Commission and the Treasury, is one of the three central agencies responsible for coordinating and managing public sector performance. Its other responsibilities include:

- national security and intelligence coordination
- management and oversight of the civil defence emergency management (CDEM) system
- monitoring the Greater Christchurch Regeneration programme.

The chief executive of DPMC is Andrew Kibblewhite, who is supported by seven senior managers.

Funding and expenditure

DPMC is funded by revenue from the Crown, through Vote Prime Minister and Cabinet. In 2015/16, it also received funding through Vote Canterbury Earthquake Recovery. DPMC’s total revenue for 2015/16 was $126 million, and it recorded a net surplus of $4.5 million. Total departmental revenue increased by 45 percent from the previous year, and total departmental expenses increased by 67 percent. Both increases partly reflect DPMC’s hosting of the Canterbury Earthquake Recovery Authority (CERA) for nine months in the year under review, compared with five months in the previous year.

Financial and service performance

For 2015/16, the Office of the Auditor-General (OAG) gave DPMC a rating of “good” for its management control environment. We were pleased with the OAG’s assessment that deficiencies identified in the audit from the previous year have largely been resolved.

The OAG rated both DPMC’s financial information system and controls, and its performance information and associated systems and controls as “good”. In both areas, the OAG noted that deficiencies identified in 2014/15 have been partly resolved. Recommendations for improvements in these areas relate to refining performance indicators and updating policies and procedures based on the new Cabinet Office Circulars.

The OAG has also made recommendations about improving the controls and arrangements around the Central Agencies Shared Services (CASS) system. CASS is leading
a project with the three central agencies to strengthen financial policies and controls. This is due to be completed in June 2017.

We hope to see the OAG’s recommended improvements carried out.

Civil defence and emergency management

The Ministry of Civil Defence and Emergency Management (MCDEM) became part of DPMC in April 2014. In the 2015/16 year, MCDEM was further integrated into DPMC, entrenching the role of the department as the leader in national security planning.

The national response to the Kaikōura earthquake

Just after midnight on 14 November 2016, a magnitude 7.8 earthquake struck, centred near Kaikōura. This caused extensive damage and affected areas including North Canterbury and Wellington.

MCDEM is responsible for leading and coordinating the national response to the earthquake, including responding to the emergency situation on the day.

We discussed the response to the earthquake and some of the challenges that it presented for the civil defence system. We thank the Director of MCDEM and her team for all their efforts to date.

Communication after the earthquake

We are aware of public dissatisfaction with aspects of MCDEM’s communications directly after the earthquake. Concerns centred on the tsunami warning issued on its website, and its briefings to the media and civil defence emergency management (CDEM) groups. We asked MCDEM if it had assessed what improvements might be needed.

MCDEM acknowledged some inconsistency in messages as more information came in about the effects around New Zealand. The Civil Defence Minister, Gerry Brownlee, has indicated that a review of the response will be undertaken.

MCDEM explained that the legislative framework for civil defence and emergency management is based on “devolved accountability”. MCDEM is responsible for issuing national warnings to the media and CDEM groups. CDEM groups are then responsible for passing these messages on to their communities. MCDEM has recommended to CDEM groups that they use multiple channels to increase the reliability of communicating information such as warnings.

MCDEM told us that it receives advice from GNS Science about when it should issue warnings. It assured us that it is working “very closely” with GNS to understand what it can do to provide information more quickly in future.

The Civil Defence Emergency Management framework

We asked if legislative change to the current CDEM framework would enable MCDEM to do its job more effectively. MCDEM said it believes the current CDEM framework works well, because local people can make decisions and fit-for-purpose arrangements that suit their communities. It also said that the CDEM groups are open to working with MCDEM within the bounds of the current framework in an effort to operate more consistently at a local level, across New Zealand.

MCDEM told us that it is for the Government to consider whether this is always the most appropriate framework.
Distribution of tsunami siren systems
We expressed concern that not all districts have tsunami sirens.
MCDEM agreed that there is disparity, and said it needs to look into this with the Wellington Regional Emergency Management Office.

Emergency alert system
We asked for an update on how work on the national emergency alert system is progressing. We understand that the objective of the proposed public alerting system is to enable government agencies to warn at-risk communities in emergency situations effectively.

MCDEM said it had concluded that a mobile-phone-based public alert system would be the most appropriate because many people own mobile phones. Implementation is predicted to take 18-months, but MCDEM is looking for ways to expedite this. MCDEM said it is possible for mobile-phone-based tsunami warning systems to override a silent or sleep-mode setting. It will be working with manufacturers to include this specification.

MCDEM stressed that educating the public about when it is important to evacuate is the foundation underpinning the warning system. It is also conscious that it must have the public’s confidence so people follow its instructions in an emergency. MCDEM understands that consistency and efficiency of information is critical in maintaining its relationship with the public.

National Crisis Management Centre
The National Crisis Management Centre (NCMC), commonly referred to as “the bunker”, is activated in emergencies and facilitates central government crisis management. The NCMC is managed by MCDEM and is situated in the basement of the Beehive (the executive wing of Parliament). We were told that it could operate from other locations if needed.

We asked whether the NCMC is appropriate and fit for purpose. We heard that the challenge with the current location is that it cannot be expanded. However, the building has various features that allow it to be self-sustainable in the event of a local disaster, including emergency supplies of power and water. MCDEM considers it useful for the NCMC to be located in the parliamentary precinct because it increases the efficiency of decision-making and disseminating information.

DPMC said that the NCMC facilitates a whole-of-government approach because it enables representatives from a number of different agencies to work together in a shared space.

Captioning of media briefings
We asked why there was no captioning in pre-prepared media briefings about the Kaikōura earthquake. MCDEM told us that the NCMC is not equipped to provide captioning for its web-streamed media briefings. MCDEM is “actively exploring” means to provide captioning based on feedback from the Deaf community. We have recently initiated an inquiry to investigate issues around captioning in New Zealand.

Lessons learned from the Canterbury earthquakes
We asked what lessons have been learned from the Canterbury earthquakes.
The chief executive highlighted lessons for legislation. The two bills enacted by Parliament relating to the Hurunui/Kaikōura earthquakes draw on the strengths of legislation introduced after the Canterbury earthquakes, and include some refinements.

DPMC has also made organisational changes as a result of the independent review of the response to the February 2011 earthquake. They include guidelines for investment in training and ICT.

The Director of the Greater Christchurch Group (GCG), a business unit within DPMC, said that the GCG has been able to use the skills and experience of staff members involved in the legislative environment after the Canterbury earthquakes. At a practical level, the GCG is applying lessons from Christchurch in planning for the long-term recovery. We also heard that the Christchurch psychosocial governance group is thinking about how it can support Kaikōura and North Canterbury.

The National Civil Defence Emergency Management Plan was due to be updated in 2010. This was delayed to 2015 so that lessons learned from the Canterbury earthquakes could be incorporated. The Director of MCDEM said that 70 agencies worked together to develop the new plan, which incorporates significant changes. One example is a clarification of the roles and responsibilities of lead agencies. There was a specific focus on understanding what services communities need and how they can best be delivered.

We were pleased to hear that MCDEM has received positive feedback about the changes.

The insurance industry

We are interested in lessons that could improve interactions with private insurers and the Earthquake Commission (EQC).

DPMC said a whole-of-government report reflecting on the lessons learnt to date is expected to be completed by March 2017. It will include lessons about the insurance industry.

MCDEM said it has worked collaboratively with both EQC and the Insurance Council from an early stage in responding to the Kaikōura earthquake. The lessons learnt from Canterbury should ensure that all organisations provide better customer service to those affected by the recent earthquake. MCDEM’s expectation is that insurance companies will consider how far along affected communities are in their recovery before acting.

DPMC added that there has been “active outreach” so that people are clear about their rights, responsibilities, and entitlements from the outset.

Christchurch regeneration

CERA was disestablished in April 2016. Its functions were transferred to local and central government agencies, including Ōtākaro Limited and Regenerate Christchurch.

The GCG, a unit within DPMC, is responsible for Christchurch regeneration matters. It was established on 1 March 2016. Through the GCG, DPMC managed the transfer of functions to the inheriting agencies, monitors the recovery, and coordinates the Government’s role in the regeneration. DPMC said it is working to achieve a balance between supporting the entities and holding them accountable for their performance.

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1 Review of the Civil Defence Emergency Management Response to the 22 February Christchurch Earthquake, 29 June 2012.
We took the opportunity of this review to seek an update about the progress of the inheriting agencies.

**Ōtākaro Limited and Regenerate Christchurch**

Regenerate Christchurch leads regeneration activities in greater Christchurch. It is jointly owned by the Government and the Christchurch City Council. From 2021, it will be fully owned and funded by the council.

DPMC explained that, because Regenerate Christchurch is a new entity, it has taken some time to establish its mandate. DPMC’s chief executive said that he would like to see “a bit more traction” in its work, but acknowledged that it has a good model for encouraging more local leadership. The GCG has been supporting Regenerate Christchurch while it develops its structure. For example, the GCG helped with its statement of intent, which was published in November 2016. DPMC recognises that it has both knowledge and capability that can benefit Regenerate Christchurch.

In contrast, DPMC said, Ōtākaro Ltd has the advantage of a very clear mandate. It is a new Crown-owned company responsible for delivering specific anchor projects. DPMC believes it is doing well, although the chief executive has “a bit of impatience as to the speed of how they’re picking up”. We heard that the GCG is providing Ōtākaro Ltd with significant support.

**The East Frame anchor project**

The East Frame is a central city anchor project that will entail a new residential area built around a park. DPMC said that work on the public space has started, and construction on the first “Super Lot” homes will start in March or April 2017. We were told that, if Fletcher Residential cannot meet requirements, provisions in the agreement with the Crown would allow termination.

**Investigation of three former CERA employees**

After the hearing, we became aware that the State Services Commissioner plans to investigate allegations against three former CERA employees that they used their public service positions to advance private business interests. We understand that DPMC has also been reviewing the allegations. We consider it important that we remain informed about the outcome of this investigation.
Appendix

Committee procedure
We met on 30 November 2016 and 8 March 2017 to consider the annual review of the Department of the Prime Minister and Cabinet. We heard evidence from the department and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Barry Coates
Paul Foster-Bell
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Department of the Prime Minister and Cabinet, dated 30 November 2016.

Department of the Prime Minister and Cabinet, Response to written questions, dated 28 November 2016.

Department of the Prime Minister and Cabinet, Response to written questions Supp1, dated 28 November 2016.

Department of the Prime Minister and Cabinet, Response to written questions Supp2, dated 28 November 2016.

Department of the Prime Minister and Cabinet, Response to written questions Supp3, dated 28 November 2016.
2015/16 Annual review of the Department of Internal Affairs

Report of the Government Administration Committee

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Department of Internal Affairs

Recommendation

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the Department of Internal Affairs, and recommends that the House take note of its report.

About the Department of Internal Affairs

The Department of Internal Affairs is a large government department, employing the equivalent of about 2,000 full-time staff. It has a wide range of responsibilities, including identity services, community services, Archives New Zealand and the National Library, and regulatory services. It monitors two Crown entities: the Office of Film and Literature Classification, and the New Zealand Fire Service Commission.

The department is funded through Vote Internal Affairs, but its activities span six ministerial portfolios: Internal Affairs, Local Government, Ministerial Services, Ethnic Communities, Racing, and the Community and Voluntary Sector.

Financial performance and audit opinion

In 2015/16, the department’s total revenue was $400.093 million, and it ended the year with an operating surplus of $5.114 million. This compares with a deficit of $20.979 million in 2014/15.

In previous years, the department indicated that it faced funding shortfalls. It argued that if these shortfalls were unaddressed, they could lead to short and long-term sustainability problems. In 2015/16, the department received $30.379 million in capital injections. These injections supported, among other things, the department’s ICT and government information service functions. The department has previously expressed concerns about funding for these functions.

We sought an update on the department’s financial situation in light of the recent capital injections. We heard that it is still expecting a long-term funding shortfall, but this is largely attributed to the expense of re-introducing 10-year passports. We heard that the department will report to Cabinet in 2018 with options to address the shortfall.

Funding from third parties

The department receives a large proportion of its revenue from fees and third parties. In 2015/16, 46 percent of the department’s revenue, or $183.168 million, came from sources other than the Crown. A set of memorandum accounts record revenue from these sources.

The department has recently signalled that it may need to alter its fees for its services to recover some of the growing costs associated with them. We note that the department itself does not set its fees, but rather makes recommendations for the Government to approve.

The department’s Passport Products memorandum account was in deficit when it transferred from 5-year to 10-year passports. It subsequently received funding to help this transition. This funding did not cover the deficit, but was used to change the department’s
technology systems to facilitate the new passports. The Government then chose to subsidise passports to assist the department in managing the transition. In return, the department is working to reduce the costs of its passport services.

**Audit opinion**

We note that the department scored as “good” for all its systems and controls in the Office of the Auditor General’s (OAG) 2015/16 audit. This is consistent with its 2014/15 performance. The OAG has made several recommendations for improvement to the department. These include:

- updating its password policy to allow three failed login attempts (the best practice standard) rather than its current 20
- expanding its detailed fraud assessment to include the risk of fraudulent financial reporting
- developing and implementing an organisation-wide, up-to-date financial commitment schedule
- implementing its planned Case Management System for recording and monitoring passport fraud investigations.

The department has partially resolved the deficiencies that the OAG identified in its 2014/15 audit. We anticipate that it will continue to resolve these issues, along with the OAG’s new recommendations for 2015/16.

**Role of the Government Chief Information Officer**

The chief executive of the department, Colin MacDonald, is also the Government Chief Information Officer (GCIO). The GCIO is the functional leader for ICT in the State sector. He is responsible for improving services, developing ICT expertise and skill across the sector, ensuring business continuity, and keeping government ICT as cost-effective as possible.

**Common ICT capabilities goal**

One of the GCIO’s goals is to develop common ICT capabilities for the State sector. By approaching the market as a single government buyer, rather than as many departments, the GCIO has been able to leverage the scale of government purchasing to secure better deals from the ICT industry. This has also allowed a simpler selection of ICT systems—such as for telecommunications and infrastructure services—that can be used by most government entities. This also saves money, as each entity no longer needs to develop its own personalised ICT systems and engage individually with the market.

We saw in a 2016 Cabinet paper that common capability programmes have so far resulted in $240 million of savings or cost avoidance. We also heard from the department that the project has produced several non-financial benefits, such as:

- improved digital security
- better collaboration across government
- greater resilience—no common capabilities failed during the 2016 Hurunui/Kaikōura earthquakes
- the ability for entities to pay only for the services they receive.
Protecting New Zealanders’ privacy

We are interested in what the department and the GCIO are doing to protect New Zealanders’ data privacy.

The GCIO agreed that data privacy is paramount as government moves towards more and more digital transactions. He reminded us of a recent review he had initiated into government data privacy. Since this review, a programme has been instigated to lift the standard of data management.

In 2015/16, the Government Chief Privacy Officer (GCPO) has been housed in the department. This role is different from the role of Privacy Commissioner. The GCPO’s role is to help government entities develop their data management practices. The department highlighted that many of the recent privacy breaches have been the result of human error. The GCPO has therefore been working with entities to develop a “privacy culture” that extends beyond the digital environment.

Monitoring gambling

The department receives revenue from gambling and holds it in its Gaming memorandum account. We asked why the department’s revenue for this area is increasing, despite declining numbers of gambling establishments and machines. We are particularly interested in the department’s monitoring of pokie machines, because of the harm they can cause in communities.

We heard that the department monitors its revenue from gambling closely. It is working to understand trends in gambling, but noted that this is complex work involving many economic and social factors. The department has an electronic monitoring system that provides real-time information about every pokie machine in New Zealand. It assured us that it has a very good understanding of when and where money is being won and lost in gambling machines, but that it needs to do more research to link this data back to New Zealand’s wider social and economic landscape.

We heard that the department expects to conclude this research in the next few months. We are very interested in seeing the results of its work.

Preventing money laundering

We are aware that pokie machines are being used internationally for money laundering. Although we have no pressing concerns about this issue in New Zealand, we were interested in whether the department’s analysis could identify problems like money laundering.

The department told us that New Zealand’s pokies have relatively low input maximums and jackpots, which renders them a less effective money laundering system. It assured us that it works with the Ministry of Justice and the Police to monitor this issue. We heard that pokie machines are currently classified as low-risk. The department also supervises a number of entities to ensure that they meet their anti-money laundering obligations.

Better Public Services Result 10

The department is responsible for progressing the Government’s Better Public Services (BPS) Result 10: “New Zealanders can complete their transactions with government easily in a digital environment”. This result specifically aims for an average of 70 percent of New Zealanders’ common government transactions to be completed online by December 2017.
These common transactions include paying Police fines, applying for an IRD number, renewing adult passports, filing tax returns, and paying for vehicle licences.

Although the department is making steady progress, there is still a way to go to reach the 70 percent target. We asked what it is doing to see that growth in online transactions continues—and what changes it is planning to ensure that it ultimately reaches its 70 percent target.

The department said it keeps in close contact with the eight entities participating in BPS Result 10. It cannot force them to increase their digital uptake. However, in February 2017 all eight entities outlined plans to improve their uptake rates. The department is working particularly closely with the New Zealand Transport Agency and the Ministry of Business, Innovation and Employment, including Immigration New Zealand. These entities’ results are likely to have a big impact on whether the BPS Result 10 target is achieved.

The department added that government digital services are increasingly popular. About 80 percent of births were registered via the department’s new online registration service in the first three months that it was available.

**RealMe**

We have been interested for some time in the department’s digital identification programme, RealMe, since it started in 2013. RealMe supports many of the BPS Result 10 services. We note that the department failed to meet several of its targets for RealMe in 2015/16, including customer satisfaction levels, the number of services available for use, and the number of new RealMe accounts created. Nonetheless, we are pleased to see an increase in the number of digital passport-renewal applications.

We note that several of the unmet RealMe targets are dependent on other agencies. We asked how the department interacts with them to encourage the uptake of RealMe.

The department assured us that it is working hard to illustrate the benefits of RealMe to other agencies. It explained that some are reluctant to re-invest in identity services, because they have pre-existing systems in place. However, the department believes that RealMe is a more customer-focused product and that this justifies the added investment. We are pleased with the department’s efforts to encourage entities to use RealMe.

We asked what the department is doing to make the process of verifying an identity easier for its customers, such as by increasing the number of places where official photographs can be taken. The department said it is investigating more ways for New Zealanders to verify their identities. Possibilities include a “Selfie” system to allow RealMe applicants to take their own photo and submit it for verification.
Appendix

Committee procedure
We met on 8 February and 22 March 2017 to consider the annual review of the Department of Internal Affairs. We heard evidence from the department and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Barry Coates
Paul Foster-Bell
Brett Hudson
Hon Nanaia Mahuta

Rino Tirikatene participated in this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Department of Internal Affairs, dated 8 February 2017.

Department of Internal Affairs, Responses to written questions 1–102, received 6 February 2017.

Department of Internal Affairs, Appendices to written questions, received 6 February 2017.

Department of Internal Affairs, Responses to supplementary questions 103–120, received 27 February 2017.

Report of the Intelligence and Security Committee

The Intelligence and Security Committee has conducted the 2015/16 annual review of the performance of the Government Communications Security Bureau. The committee heard evidence in public from the Government Communications Security Bureau and received advice from the Office of the Auditor-General.

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

Rt Hon John Key
Chairperson
2015/16 Annual review of the Government Superannuation Fund Authority

Report of the Finance and Expenditure Committee

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Government Superannuation Fund Authority, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Chris Bishop
Chairperson
2015/16 Annual review of the Guardians of New Zealand Superannuation

Report of the Finance and Expenditure Committee

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Guardians of New Zealand Superannuation, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Chris Bishop
Chairperson
# 2015/16 Annual review of the Inland Revenue Department

Report of the Finance and Expenditure Committee

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Inland Revenue Department

Recommendation
The Finance and Expenditure Committee has conducted the annual review of the 2015/16 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 more than 80 percent of the Crown’s revenue—through personal tax, company tax, and GST. In 2015/16, it collected $64.3 billion to help fund government programmes.

The IRD has an important role in administering several social policy programmes, including child support, student loans, Working for Families tax credits, and paid parental leave. The IRD also administers KiwiSaver and advises the Government on tax policy.

The Commissioner of Inland Revenue and Chief Executive of the IRD is Naomi Ferguson.

Priorities in 2015/16
In 2015/16, the IRD continued to work on its multi-year Business Transformation programme to upgrade technology and improve its policies and processes. The programme’s timetable for delivery was reduced from 10 to seven years.

The IRD appointed FAST Enterprises to supply the new, core tax ICT system that will form the basis of the IRD’s Simplified Tax and Revenue Technology system (START). The detailed design phase was completed, and the implementation phase for Stage 1 began. This involves configuring START for managing GST returns and payments online. The IRD said it has also started planning for Stage 2.

Financial and service performance
The IRD’s total departmental revenue for 2015/16 was $776.3 million, 7 percent higher than in the previous year. The IRD’s output expenses totalled $747.5 million in the year to 30 June 2016. This was 6 percent higher than in 2014/15. The IRD used most of this increased amount for its Business Transformation programme.

The IRD achieved 55 of its 59 performance targets (93 percent).

Interest limitation rules
We are aware of the IRD’s work with the Government on implementing OECD recommendations about capping tax deductions on interest paid to a maximum of 30 percent of a company’s earnings before interest, tax, depreciation, and amortization (EBITDA). Consultation on this was supposed to finish in September, and we asked about the progress of this work.

The IRD is currently working on a public consultation document for release early in 2017. This will explore the new OECD-recommended EBITDA proposals and look at strengthening the rules that already exist. We heard that more work was needed on this and
that the IRD was also keen to not overwhelm its private sector stakeholders, having recently released another very technical document to them.

The IRD assured us that this work is a priority. We heard that the work provides a great opportunity to think about ways to buttress the rules about limited interest deductions, which is how multinationals channel profits out of New Zealand.

**The Business Transformation programme**

**Projected costs of the programme**

We understand that the Treasury suggested that the projected overall costs for the Business Transformation programme of $1.9 billion, provided in November last year, were optimistic. The Treasury said that, if the anticipated savings of about $740 million are not realised, the Government will need to provide significantly more funding for the programme. We asked for an update on this.

We heard that, so far, the IRD has incurred $106 million for Stage 1 of the programme. The IRD is forecasting that it will cost $196 million to complete that stage, below the $210 million allowed for in the business case.

However, Stage 2 of the programme involves business taxes and is complex. Stages 3 and 4 cover social policy, which is even more complex. This is why significant contingency is built into the costings. The IRD is confident of achieving the anticipated savings.

We asked about the processes the IRD has in place to assure the taxpayer, who will ultimately be paying for the programme. The IRD is using programme management disciplines that include a series of independent quality reviews. These reviews have provided very positive feedback about the approach to, and the quality of, the programme delivery.

Internal governance processes are being used to look at benefits management and benefits realisation, and how the IRD is going in delivering these. Benefits realisation includes staffing and the introduction of new business processes for filling vacancies, along with a programme of upskilling and reskilling staff.

**Contracting and procurement for the programme**

We discussed how contracting and procurement for the programme is working—in particular, the use of New Zealand businesses. The IRD said that it follows the Government procurement rules and that 74 percent of the money spent so far has been awarded to New Zealand-registered companies.

We asked about the need for programming work, using the coding language COBOL, to be done in the Philippines. We heard that the IRD has contracted Accenture to do that work, which is using its offshore data centre in the Philippines. The time difference has effectively extended the working day, which is positive for the programme’s scheduling.

The IRD is confident about this arrangement because the Australian tax office also uses the data centre in the Philippines.

Some of us believe that a greater proportion of contracts under this program could and should be undertaken by New Zealand based firms.
Overpaid tax owed to New Zealanders

We asked how much overpaid tax is currently owed to New Zealanders and heard that the IRD has about $700 million in unclaimed refunds. The IRD does not have the tax returns or the confirmed personal tax summaries that would allow it to repay slightly more than 50 percent of this money. The IRD is working to identify the reasons the remaining amount remains unpaid, which might be an incorrect address or something more substantive.

So far, the IRD has paid out GST refunds to 180,000 customers, totalling about $3 million. It will issue credits for other taxes during the next 18 months.

Overcharging of late payment penalties

While preparing the new START system to begin handling GST early next year, the IRD discovered that the existing FIRST system had, since 1997, been incorrectly overcharging late payment penalties in certain circumstances.

We heard that the IRD has now corrected this error, and the 166,000 affected customers who are owed a total of up to $100 million are being refunded with interest. These refunds were expected to be completed by Christmas 2016.

Total debt owed to the Inland Revenue Department

The total debt owed to the IRD has decreased by 3.2 percent from the previous year to $9.1 billion. We wanted to know how much of that amount can be collected and how much the IRD expects to write off.

We learned that about $1 billion is under arrangement, the IRD is actively working to collect a further $3.5 billion, and the remainder has been identified as non-collectable.

Amount and frequency of new tax legislation

The business community has expressed to us its concern about the amount and the frequency of new tax legislation, and we wanted to know whether this trend is set to continue.

We heard that, when the IRD issued the green paper on transformation 18 months ago outlining the legislative change required, the size and scale of that work was not fully appreciated. Although the IRD expects the busy pace to be ongoing for the next couple of years, it continues to work with the tax community to find a balance between progressing the legislation and the business community’s ability to manage it.

Student loan repayments from overseas-based debtors

We were pleased to learn that student loan repayments from overseas-based borrowers have increased by 17 percent. However, we are aware that overseas-based student loan borrowers in the PEN group (penalty group) have overdue amounts that are growing faster than the rate at which these borrowers are becoming compliant. This is because of the compounding effect of late payment penalties and interest.

We wanted to know whether the IRD has any innovative tools to engage with these overseas-based student loan borrowers. The organisation has a range of tools to help get in touch with these people earlier, help them pay, and make it easier for them to pay. Work with payment providers has made it easier for borrowers to make international payments. The IRD uses text messages, email, and social media to contact borrowers and make payment arrangements.
The IRD recently signed a memorandum of understanding with the Australian Taxation Office to provide for information sharing, which has already enabled about 10,000 accounts to be reviewed. About 65 percent of overseas-based borrowers live in Australia.

The IRD also works with debt collection agencies in other countries and is currently considering a bilateral agreement with Her Majesty’s Revenue and Customs department in the United Kingdom.

The IRD is doing some customer insight work with the Ministry of Education and the tertiary education sector to understand what drives people into debt. This is part of the IRD’s work to segment and understand the student loan borrower better.

We heard that arresting people at the border has resulted in an increased amount of contact with overseas-based borrowers. However, it is a method of last resort and used only after other means of seeking compliance have been exhausted.

We suggested that a progressive repayment rate that takes account of a borrower’s income level could encourage people to start making payments earlier, rather than the fixed 10 percent rate, which could be seen to encourage avoidance.

We wanted to know whether the IRD’s new IT system will be able to cope with varying the rate of repayment and heard that it will be able to. However, student loans will not be addressed until stage 3 or 4 of the Business Transformation programme.

Inland Revenue’s customer satisfaction scale

We asked about the IRD’s customer satisfaction scale, where, of the ratings one to five, three, four, and five involve “satisfied” and “very satisfied” ratings. We asked why the IRD does not use a symmetrical scale like other organisations.

The Commissioner of Inland Revenue said that, because the IRD has been using this scale for a while, it can easily compare the results with its performance in previous years.

However, as the IRD transforms its business, it will want to change some of its performance measures, and, when it does, it will explain those changes to the committee.

Multinational tax avoidance by large businesses

We discussed the UK and Australia’s moves to introduce diverted profit taxes, which are separate penal taxes outside of the normal treaty system and outside of the OECD’s work on multinational tax avoidance. The IRD will observe progress of this in the UK and Australia.

The IRD considers that New Zealand’s tax laws are pretty robust and recognises that there is a balance to be struck between getting the appropriate amount of tax and scaring away foreign investment.

We talked about investigations into large businesses and heard that an investigation can take two to three years to work through. The IRD’s approach to large corporates’ compliance has changed considerably in the last three years. The IRD now sends out questionnaires for businesses to fill in, achieving a 100 percent completion rate by large corporates. It does a risk assessment of the information received against certain criteria.

We pointed out that some people have estimated that New Zealand may be missing out on more than a billion dollars of tax revenue a year and asked whether the IRD agreed with this. The IRD said that big businesses pay $10 billion of tax each year and that this amount has remained pretty stable over the years.
In terms of the amount of money at risk, the IRD’s risk assessment process provides detailed information on the 800 largest businesses operating in New Zealand. Based on this information, the IRD does not think that there is a significant risk or that it needs to change its approach to its operational activity.
Appendix A

Committee procedure
We met on 9 November 2016 and 15 February 2017 to consider the annual review of the Inland Revenue Department. We heard evidence from the Inland Revenue Department and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw
Michael Wood

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the 2015/16 Annual Review of the Inland Revenue Department, dated 2 December 2015.

Inland Revenue Department, responses to Supplementary Standard Annual Review Questions 2015/16, questions 1–102.

Inland Revenue Department, responses to Supplementary Annual Review Questions 2015/16, questions 103–110.
Appendix B

Transcript of hearing 9 November 2016

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Stuart Nash
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour
James Shaw

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

Chair Welcome, Commissioner. Thank you very much for your attendance and your staff today. I see you’re colour coordinated as a team.

Ferguson I avoided the green though.

Chair Very neutral colours, so, yes, the Hawke’s Bay. So, welcome. If you want to give us a brief introduction and then we can ask questions.

Ferguson Thank you very much, Mr Chairman, committee members for the opportunity to come back and speak with you today. As always I appreciate the opportunity for your feedback and questions. [Introductions]. I want to talk about three things in my opening comments. I’ll briefly look at our performance in a range of areas over the period of the annual report. I want to talk about transformation a bit there. I will provide you with some up-to-date information as of today, and I mean roughly today, we’re at that period, as opposed to just referring to what was in the annual report. Then, finally, I want to touch on the importance of protecting the integrity of the tax system.

Looking at our performance last year, it was another excellent year for the Inland Revenue in terms of our outputs and results. Our service performance improved. We achieved 55 of our 59 service performance measures—which is 93 percent, up from 91 percent the previous year. We
collected $1.2 billion in student loan repayments and $474 million in child support payments. We paid out $2.4 billion in Working for Families tax credits, distributed $280 million in child support entitlements, and we have paid out $217 million in paid parental leave, and over $5 billion to KiwiSaver providers.

We collected some $64.3 billion in tax revenue—an increase from the previous year where the total was $59.7 billion. In our investigations work we discovered discrepancies of $1.2 billion; a return of investment of $7.91 for every dollar invested, exceeding our target of $7.

Total debt owing to the Inland Revenue Department has decreased. The total debt on 30 June 2016—including tax debts, student loans, and child support—was $9.1 billion, which is a 3.2 percent reduction from the previous year. We have achieved this by continuing to use customer insights and intelligence-led analytics, preventing more people getting into debt, as well as following up faster if they do. I was very pleased that we were recognised for that innovative approach through an IPANZ public sector award. We also saw a 17 percent increase in student loan repayments from overseas-based borrowers, again using much of the same techniques and targeted campaigns.

We have had other successes too. We were the only organisation to achieve an A rating in investor confidence in the new Treasury system. We have also won a public sector evaluation award for our excellence in evaluation with KiwiSaver, and at the CFO awards we, together with the Department of Internal Affairs, won the Financial Innovation Project award for our work with them in creating the shared service.

Our customer-centred approach has increased our customer satisfaction levels. 90 percent of all of our customers, 92 percent of businesses are satisfied with the Inland Revenue, and, even better, 78 percent of all customers and 82 percent of businesses are very satisfied with us. In a survey of 4,000 small to medium enterprises they said that the time, cost, and effort they spend meeting their tax obligations has considerably reduced—by 25 percent—since 2013. That’s a key benchmark for us as we move into transformation, and something that sits at the heart of our transformation programme.

As I have said, I want to take some time to give you a sense of where we are with that, recognising how important it is to us. The first thing I would say is that we are on time, under budget, and in the final stages of preparation to go-live with the first stage in early 2017. I used to say that when I left the building at the end of the week—saying that I felt pretty positive; I am now saying when I leave the building at the end of the day I am pretty positive. That’s because we are now in the testing stages with much of our technology, and in the final stages of preparation with customers and our staff, and I will explain the working shortly.

Ensuring that our customers are ready for this transformation is a key part of it. The first stage of transformation primarily involves moving GST into our new START system, so it is business customers that we are engaged
with, primarily. Our community compliance people have been on the road with Government partners and in a Taking Care of Business roadshow, listening to business customers around the country with both what they want to achieve and helping them understand what’s coming. We’ve had webinars for tax agents, we’ve attended conferences with CAANZ, with MYOB, with Xero, with the bookkeepers association, all of which have had very positive feedback, and have also given us insights into what we need to do.

We launched our Changing for You website. That website allows businesses to understand how the changes will impact them, and to give them an opportunity to have their say.

Obviously, we achieved a major milestone whenever Cabinet approved our business case in the middle of 2015-16. And, indeed, in June—whenever the first Business Transformation bill received Royal assent—and I would thank the committee for your work on helping us with that bill.

A few more significant steps were the start of the stage one for transformation, and appointing FAST Enterprises as our main software supplier for our core tax system. Ahead of stage two, our policy work programme continues, as the committee is well aware. A significant step was the announcement last week of improvements to pay-as-you-earn administration. One of the main proposals here is payday reporting of employee information to Inland Revenue from April 2019. This will mean integrating pay-as-you-earn as part of paying wages, reducing compliance effort. It also importantly lays the foundations to create opportunities for the future simplification of social policy administration.

Our customers have already had a taste of some of the service improvements that are coming. This year we released a new service with MYOB and Xero to allow businesses to file their GST returns directly from their accounting software. That new method is increasingly popular with our customers. It saved them time and effort, and is simply much simpler for them. As of 31 October more than 43,000 GST submissions had been filed through the accounting software direct. At June that was 4,400, so it’s ramping up.

In early 2017 we’ll introduce further improvements for GST through the online services portal in myIR. We’ve been working closely with stakeholders and businesses to inform them and keep them in touch with those developments, and we’re now at the point where we are starting to contact customers directly to let them know what’s coming. Last week we emailed 240,000 of our myIR GST customers to start to make them ready for what’s ahead in the new year.

As part of other digital improvements in stage one, incorporated businesses will be able to use their NZ Business Number as a unique identifier when they contact us. New migrants will be able to register with us digitally, as an integrated step in their resettlement and visa process. So, in short, with Business Transformation we are making customer friendly changes to
ensure that our tax administration is fit for purpose and meets the needs of modern New Zealand.

Behind the scenes, this period has been one where we have been doing a lot of our foundational work ahead of the next stages. So, we have completed, or are on track, to complete key elements of that foundational infrastructure. With Spark/Revera we have put in place new data centres to support our new START system. We have replaced almost all of the connectors that allow our core system, be that FIRST or START, to communicate either with other systems internally, for example all of our voice technology, or, importantly, with other systems, be that MSD, KiwiSaver providers. If we’d had our hearing in December, I would have been able to say “Complete”, I hope, so we are very almost there with that one.

In addition, we have configured our new software, START, for stage one. We have had that in test since June, and we have built the necessary links between FIRST and START to allow the systems to talk to each other, as they will need to do once GST is being managed in START.

We’ve made a number of internal changes strengthening our governance and our IT management, allowing us to deliver the programmes successfully, and maintain business performance. And as change rams up we are also very focused on our people, culture, skills, and leadership for the future. Training is now under way on the new systems, some 3,900 staff will be trained ahead of the stage one go-live and after it is live and to ensure that they understand how to use that new system. We’ve just completed the fourth of a series of regional leadership forums with our frontline leaders, ensuring that they’re ready to lead change through this time.

We continue to complete a number of independent quality reviews. At the moment we have our fifth IQA under fourth technical quality assurance under way. All of those continue to give us very positive feedback about the approach that we are taking and the quality of programme delivery. I hope that that gives the committee a sense of where we’re at. I would be very happy to answer further questions on that.

If I can finally move to the subject of protecting the integrity of our tax system. It’s hugely important in everything we do, and our right-from-the-start focus is all about ensuring that we seamlessly support businesses and individuals to meet their obligations and play their part in the system as easily as possible. But it’s also about ensuring that we tackle issues that put the integrity of the system at risk. Within New Zealand and globally we have used a range of actions to ensure people pay when they should. Tackling the hidden economy, property compliance, fraud, and aggressive tax planning—including international tax planning—has raised community awareness, as well as generating an excellent return on investment. Thanks to our hidden economy marketing campaign and other initiatives we have seen a positive shift in recent attitudes to tax crime. In 2012 only 37 percent
of tradespeople agreed that tax cheating is a real crime; that figure is now at 60 percent.

Integrity can also be at risk, though, if people overpay and are not repaid those moneys, something this committee has raised in the past. Whilst preparing the new START system to begin handling GST early next year, we discovered that the existing FIRST system had been incorrectly overcharging late payment penalties in a particular set of circumstances. That error in the existing system has been corrected, and all of the affected customers are being refunded with interest. The majority of the customer records have been corrected, and we expect most of the refunds to be complete by Christmas.

Since March this year we have been working on a project specifically to issue previously unclaimed refunds to customers. So far, we’ve released GST credits to 180,000 customers, totalling around $3 million. Most of the GST credits from the system have now been released, and we will be progressively issuing credits for other taxes over the next 18 months.

A key area of focus continues to be the changing international landscape, of course, and the impacts of this on tax policy and administration. There is much public debate about this, and, in particular, about BEPS—base erosion and profit shifting—and I am pleased to say that our work continues with the OECD, and we continue to contribute significantly to their work programme, and to meet the OECD time lines including those around the implementation of the global Automatic Exchange of Information, to help resolve offshore compliance.

It is only fair to recognise that multinationals are major contributors to New Zealand’s business and economy. The 600 largest taxpaying groups operating here account for almost 55 percent of New Zealand’s corporate tax base, and 10 percent of overall tax revenue, contributing more $6 billion in tax annually. But we continue to closely monitor data from multinationals, including their tax payments. We’ve an extensive international compliance programme, which includes working with the OECD and maintaining tax treaties with 40 countries. And we have refreshed our multinational enterprises compliance future product, which details how we manage multinational’s compliance, our response to the OECD action plan, and our call to action for better corporate tax governance. And that’s something that’s recurrent in the process of sharing with the tax community and through CAANZ at their conference next week.

As you will be aware, the Government appointed tax expert John Shewan to run an independent inquiry into New Zealand’s foreign trust disclosure rules. Inland Revenue supported that inquiry fully, and we are preparing to implement the changes that are currently before the House in legislation.

In closing, last year was another busy but exciting and fruitful year for Inland Revenue. I continue to remain proud of our performance and the performance of our staff, and those involved in the tax system to ensure that New Zealand has the funds it needs to support the Government and to
Chair: Thank you, Commissioner. Just on behalf of the committee and Parliament, thank you. You’re an excellent member of our Civil Service, and one of our most effective leaders of a department, so we really appreciate your work and leadership. The way you’ve gone through all the issues today—it’s going to be a tricky process that you’re going through, and a lot of people wouldn’t have envied that, but you’ve approached it in a manner which I think everybody here’s very thankful for, and you’ve done an excellent job. Also, your staff, who have come through us with a few tax bills this year, so we would appreciate if you would pass on to them their thanks.

Robertson: And slow down, just a little bit, thanks.

Chair: No, but I think there might be something in the new year, but—no, thank you. They’ve done an excellent job, and always a pleasure for our committee to work with.

Ferguson: Thank you. I will pass on that feedback. I have got a great team and a great department.

Robertson: Yeah, thanks, Mr Chair, and I’d just echo those comments as well. We’ve seen a lot of the departmental officials this year, and they’ve been very helpful, as ever. I want to pick up a couple of things. I want to, firstly, pick up where you left off, actually, around multinational tax. I wonder if you could let me know where things have reached around interest limitation rules. There were papers that were emerging out of the department that indicated that you were proposing and working with the Government on the introduction of the OECD recommendations around capping tax deductions on interest paid to a maximum of 30 percent of the EBITDA and I would just like to know where that’s got to.

Carrigan: Certainly. I’ll actually ask David to give you that information.

Ferguson: So, yeah, you’re right. We are working on a public consultation document for early next year, which will cover those issues—the options around the OECD-recommended EBITDA proposals that you referred to. There’s also some other approaches you could take, which is, essentially, strengthening—instead of adopting a completely new approach, which is what the EBITDA approach is—actually taking what we’ve already got and strengthening those rules. So there are two approaches and both will be canvassed in a document early next year.

Robertson: The papers that got released under the OIA indicated that was going to be happening this year. In fact, their consultation was supposed to finish in September. Why didn’t it?

Carrigan: You are right—that was due for later this year. It’s really responding to a couple of things: one, frankly, we need to do some more work on it, to be honest, and, secondly, the not wanting to completely overwhelm our private
sector stakeholders with things just before Christmas. So it’s very close—it’s early next year.

Robertson Sorry, just to dig through it a little bit more: if it had been done in September, it wouldn’t be close to Christmas, and, clearly, there were issues. Are those issues that there is a lack of—you know, you put that advice to the Minister, presumably the Minister has come back to you. What concerns has the Minister come back to you with that have delayed it?

Carrigan It’s very much around—if we’re going to do this, and to make these new rules work, we need the full support of the private sector stakeholders that work with us, both in providing technical support and also just making sure that the rules, practically, will work. It was just trying to manage the workload for them. We have released a very—you’ve probably noticed it—technical document on hybrid mismatch arrangements, which they’re already trying to absorb. Even for the private-sector tax community, that’s a difficult set of proposals. It was really just trying to sequence things in a more manageable way.

Robertson Because I think the concern that I would have is that this is a recommendation out of the OECD process, and often we hear from the Government that this is, you know, a multilateral solution to the problem, and I certainly accept that in principle. Here’s a proposal emerging out of that multilateral processing. We seem to be dragging our feet and asking the turkeys to organise the Christmas. You know, I guess I’m looking for some assurance that this is a priority for IRD.

Carrigan It certainly is a priority, I can assure you that. We think this is a great opportunity to think about ways we can buttress our rules around limiting interest deductions, because that’s the way that the multinationals stream profits out of New Zealand. So it is—I can provide you that assurance, and we are looking at early next year.

Robertson Right, and just one last question on this bit before I move to another matter: have you been given an indication by the Minister that this is a priority for him?

Carrigan Yes.

Robertson I want to just now turn to—with the chair’s indulgence—the Business Transformation programme, and indicate that, you know, we all appreciate that this is absolutely massive and difficult to manage. I just want to clear up a couple of things first before—a couple of specific questions, again, looking at material that was produced, or was released, rather, under the OIA. The projections around overall cost in November last year—the Treasury suggested that your projections were at the optimistic end, and they also said that if you didn’t get back the savings you thought you would, then you would be coming back to the Government for significant funding. I just want to get a picture of where we are now: so the numbers were around the $1.9 billion at that point. You were looking for around $740 million worth of savings out of depreciation and capital charging. Can you indicate to me where that’s at now?
Ferguson As we move through stage 1, we have currently incurred $106 million on stage 1, and are forecasting a cost at the completion of that stage of $196 million against a figure that was in the business case of $210 million. So on the work that we’re doing, we are running under budget. We have not had to, within those figures, reach into either the departmental contingency or the Minister’s contingency that we had provisioned for this phase. We haven’t revised the total; it’s too early to do that. We’ll come through this stage, and then understand what that does to our thinking around the total. At the moment, though, any change would be on the downside, rather than the upside, given that we are, in this stage, delivering to budget and, as I say, have delivered some of those key infrastructure elements.

That being said, stage 2 of transformation has all of the business taxes in it, and the work before the House in terms of changes to business taxes, as well as simply switching them over. It’s a pretty big stage, and has a degree of complexity in it. Then, in stage 3 and 4, we move to social policy, which has even further degrees of complexity in it. That’s why we have a significant contingency built into the programme.

So, all I can say to the committee at the moment is that we’re not seeing pressures that would mean that we wouldn’t come in within those figures, and, indeed, the delivery in the first stage, including some of those key infrastructure pieces, is coming in well within the provisioned budgets. In terms of savings, firstly, there are savings that we envisaged to the business community, in terms of reductions in their compliance costs. We are already seeing that the work we’ve done as part of the early customer enhancements to our website, etc., is making a significant difference to them, and we expect those benefits to continue from their perspective. In terms of the internal savings, we’ve achieved $1 million in terms of reducing the cost of our print already so I can say that we are actually achieving some of the early benefits that we had in the business case. It’s fairly clear to us as we’ve looked, with our staff, at the new technology that the ability to run the system more efficiently is there, and, quite frankly, we still take out some of the workarounds that we have in the current system. So I’m feeling confident about those still.

Robertson I accept all of that, and all of us, in this exercise, are looking at crystal balls, to some extent, but I think when I read Treasury saying that that $740 million is optimistic, I tend to agree with that. I just wonder what processes you’ve got in place to be, you know, to be rigorous about that. I think every large IT project in the world claims big savings, and I accept the point you make about the savings to customers, but this is actually about, internally, how much this is going to cost taxpayers.

Ferguson So, we’ve done a number of things, and, as I commented at the beginning, our programme management disciplines form part of the investor confidence rating that has been looked at. So, they are good. Within there, we did say one of the areas we want to continue to work in is benefits management and benefits realisation. We use our internal governance processes to look at that, and how we are tracking towards delivery of those.
A significant part of the benefits realisation is in terms of manpower. We have introduced new business processes for the filling of vacancies, which mean we are already starting to think about how we reshape our workforce. We have around 11 percent wastage a year, where people leave the organisation for reasons of their own choosing. We'll start to use that capacity to do two things: one, to realise those benefits, but, two, importantly, in parallel with the programme of upskilling and reskilling to ensure that we give our staff the best chance of being part of that future.

Robertson: Sure, OK. Just one more question, Mr Chair. Just to confirm on that point, you remain confident of the savings that you claim?

Ferguson: Yes.

Robertson: All right. We'll see. I'll talk to Treasury about that next week. I just want to ask a specific question around the programme and the way in which the contracting and some of the procurement is working. I know FAST, obviously, is the lead contractor. Where, there is the capacity inside New Zealand for work to be done—that is, there is some expectation that that will occur, correct?

Ferguson: So, obviously, we follow the Government procurement rules and within that, I would say that 74 percent of the spend to date has been awarded to New Zealand's registered companies. We are working with a number of companies, not just FAST Enterprises. They're supplying the core software, as I said, and Spark/Revera have been awarded the contract for data centres—that's $45 million to $60 million, depending on how that proceeds over the next 10 years. We've got work with companies like Assurity, in our testing space, all the way down to some quite small outfits—Optimation have helped us, ThinkPlace have helped us, and we would envisage, over the course of the programme, there being a number of players who come in and out of different products. Deloitte Asparona are critical to our foundation programme at the moment.

Robertson: The concern that's been raised with me is where, for instance, you've got coding work or programming work—the coding language COBOL, which is very common and there are many people capable in New Zealand of undertaking work in that area. My understanding is that that work is actually now been undertaken in the Philippines. I just wonder if you can—to me that does not sound like us prioritising getting New Zealand companies' contracts.

Ferguson: Certainly. So the work that we are doing to have the two systems to talk to each other is work that we refer to as coexistence and it has a level of COBOL programming—a significant amount of work to be done in that space. We have contracted Accenture to do that and they are using their Philippines offshore centre to do some of that work. That's allowed us to do out of hours from New Zealand hours, which actually has allowed us to keep on track to delivering this pretty fast. It's one of the biggest pieces of the work that needs to be done. There actually aren't that many COBOL programmers. I think it's an ancient and dying language.
Robertson  You might be surprised.

Ferguson  So there are some but the capacity we needed—we went to Accenture and that's how they source it.

The Australian tax office have also and also use that Philippines data centre so we were pretty confident in how it would work. As I say what it's allowed us to do is actually extend the working day and keep the programme running fast.

Nash  Thanks, Commissioner. It’s a very good report and you’ve done a very good job. Three areas, the first one I’m going to ask, my stock standard question that I ask every year: how much overpaid tax do you actually owe New Zealanders at this point in time?

Ferguson  I think at the point of the annual report it was around $700 million in unclaimed refunds. Over 50 percent of that—just over 50 percent of that—we actually don’t have the returns or the personal tax summaries confirmed that would allow us to repay it. As I say, the rest of it is where we have started that project to start specifically identifying what the reasons are as to why those credits are sitting on accounts, that might be an incorrect address, it might be something more substantive, and to work to issue those, and 180,000 customers have had a GST refund as a result. So that’s coming down.

Nash  So that GST refund of about—you know, the overcharging of penalties and interest [Inaudible]: was it about 180,000 customers that were affected?

Ferguson  No, let me clarify that. So, in terms of our normal—that refund credit balance that you’ve asked about before, we have contacted 180,000 customers and issued refunds in response to a project specifically around that previous question.

The issue with late payment penalties that we identified through START goes back to 1997 and impacts around 166,000 customers, and we are in the process of generating credits and refunds to them. We’re about 70 percent of the way through that.

Chair  What’s the total value of that?

Ferguson  Our estimate of it was it could be up to $100 million. It’s quite significant over 20 years. Currently the value of the credits that we have, as I say, re-credited to people’s accounts, paid out, cleared debt, etc., is about $56 million. That’s about 70 percent of those customers so we’re still working through that and we’ll need a figure.

Nash  But the $9.1 billion worth of debt: how much of that can you reasonably expect to collect and how much do you reasonably expect to have to write-off?

Ferguson  So every year we take a look at impairment and write-off. I think Arlene might be looking for an actual figure, because I’m not sure off the top of my head, to be honest. I guess our approach on debt has seen us be able to bring back into payment a significant amount of that, and the thing that is particularly important is that early repayment. So of the collectable debt—
Certainly we have—that whole amount of debt doesn’t include the amount we have under current arrangement because it’s still a debt. So we have about a billion dollars that is under arrangement, and we are actively working the three and a half billion of that $9 billion and the rest has been identified as non-collectable, which could be impaired, it could be amounts in dispute and that would make up the total $9 million—$9 billion, excuse me.

We sort of half joke about the fact that we’ve seen a lot of your officials in front of the select committee this year, and they have done a fantastic job, there’s no doubt about that. But you’re probably aware, on a more serious note, that a lot of the business community have actually been a bit concerned about the amount of legislation and the frequency it’s coming before the committee. Is this a trend that’s going to continue, or is this just something you had to get out of the way to undertake Business Transformation and put the governance process in place—it’s going to pare back—because what some of the submitters have said is this is just too much.

It is a significant amount of legislation. We issued the green paper on transformation 18 months ago maybe, which had that time line of what was coming, and I think we all possibly looked at that and didn’t quite realise the size and scale of some of the amount of work that would be involved in it. If we combine that with what is a very significant international work programme, the like of which again we haven’t seen historically, then certainly it is. I do think it will continue for the next couple of years. That’s certainly what we are planning for in terms of our resourcing.

However, as David said, we do continue to work with the tax community to look at how do we find the balance between keeping those pieces of important legislation moving forward and their ability to work with us to ensure that they are appropriately constructed.

You talked about overseas student loan debtors and how you’ve engaged them, which is fantastic. But you say in the questions that in fact their debt is growing faster than the engagement. Are there any sort of innovative tools—I mean are you looking at an amnesty if people start engaging or is there any other way that you can engage with these young Kiwis because my slight concern, and it’s not based on anything, is that debt reaches too much then they’re just not going to say: “We just can’t come back to New Zealand.”?

So we have—Arlene may want to comment more—thought about a range of tools to support getting in touch with people, getting in touch with them earlier, helping them pay, so simply making it easier to repay.

We are, at the moment, working with the Ministry of Education and tertiary to do some fresh customer insights to understand what is actually driving people into debt and when the thinking for that starts because actually to your point it’s much earlier than “I don’t have the money this week.” So we are doing some deep customer insight work specifically at the moment into
that space. But Arlene might want to touch on what we’ve already been doing.

White Just one added new incentive that we just recently had a memorandum of understanding with the ATO in order to share data with them. We’ve reviewed about 10,000 accounts that they gave us information on and so we will be able to actively collect those 10,000 accounts. So it just the process of identifying these people and then, as Naomi said, getting them into a payment arrangement that they can afford.

Seymour I just wanted to ask about the 17 percent increase in repayments on student loans you mentioned. You said this was due to some new tools and techniques you’d used. Could you just elaborate on how that’s happened?

Ferguson So progressively over the past few years we’ve sought to segment and understand the customer debt book for student loans to understand and get data, as Arlene said, from a range of sources to be able to contact those people and to work with them directly around why they’re in debt and how they can progressively come out of it. We’ve worked with payment providers to make it easier if you’re internationally to actually make an international payment.

So we found a range of things that were just stopping people repay their debt. Then, to your point, it gets too hard and so helping identify them earlier, find them, make sure they understand some of the ways in which they can simply repay the debt, and then working with them to maintain compliance. So, all sorts of things from texts and email contact. Obviously many of these borrowers are overseas and also of a generation for whom email and texts have more impact, and so we’re using techniques like that.

Seymour So I’m just curious: you didn’t mention the 2014 legislation that allowed arrest at the border. I guess the easy way to quantify it is, how much of that increase occurred from overseas borrowers in the second half of the financial year after the first arrest was widely publicised?

White In terms of percentage I don’t think I can quote that off of the top of my head, but certainly we have an increased amount of contacts from overseas-based borrowers as a result of the arrest at border. As we continue to roll-out our social communications, certainly Facebook and other means of communication, and identifying people that actually are on Facebook talking about the arrest at border and making sure that they know how to contact us and make arrangements to pay.

Ferguson I would say that is our last resort provision and something that we get to only after we’ve achieved, or not achieved, bringing the customer back into compliance by any other means.

Seymour I’m aware of that. Just curious about your customer satisfaction, I don’t think I’ve ever seen a one to five satisfaction score where three, four, and five are “satisfied”, four and five are “very satisfied”. Usually it goes “very unsatisfied”, “satisfied”, “neutral”, “satisfied”, “very satisfied”. Is this a new technique that the IRD has and, more to the point, what would the statistics
look like if you had a symmetrical scale like everybody else that does satisfaction surveys in the world?

Robertson: Get out of bed on the wrong side this morning, David?

Hon Member: Loosen that tie.

Seymour: If the Chairman knew he was a member of Parliament and supposed to hold the executive to account he’d probably think it was the right side. Anyway.

Robertson: I move that Mr Seymour get more questions today.

Ferguson: It is the scale that we’ve been using so it’s comparative with our previous performance. As I say, I remain confident that the community believes that we are doing a good job. One of the things I often—

Seymour: Well, if you’re that confident will you start using a symmetrical scale next year?

Chair: OK, I think we’ve had enough.

Seymour: No, no, no, it’s actually a legitimate question.

Chair: Well, let the Commissioner answer then. Don’t interrupt her then.

Ferguson: Can I add two things: firstly, on customer satisfaction one of the things that I find that makes me most proud every week is that I get a number of direct compliments to my office about our staff. I get more of those direct to my office than I get complaints.

Seymour: They may be filtering them.

Ferguson: I’m not sure there are that many CEOs—they come straight in to the inbox. So, I think that’s a sign of how well we are serving the people of New Zealand at the moment.

On metrics, on a serious point, as we transform our business we will be wanting to change some of those performance measures, and so we have got work under way, and at some point we will want to come and explain to the committee how we are seeing that.

Our business is changing, the nature of our business is changing. We are working much more to prevent debt than to collect it. We are working much more to ensure that our services are available and accessible online. Actually, if you look hard through our measures some of those things are not reflected in those output measures and so, in all seriousness, ensuring that our measures are robust for the business that we’re running and the business that we will be running through and after transformation is something that is on our agenda, and we will be wanting to make changes to those.

Shaw: Good morning. My name’s James Shaw from the Green Party. Thank you very much for coming in. Actually, just on the student loan piece, very briefly, there is a hypothesis that one of the reasons why people leave the country and why they avoid start making payments is because it kicks in at 10 percent and that a variable rate, a progressive rate, where people who are...
on low incomes, which generally you are when you leave tertiary education, it then scales up over time is more likely to encourage people to stay and to start making payments earlier. But I understand that the existing IT system won’t handle that. I just wanted to get an assurance that the new one would be able to handle such as mechanism like varying the rate of repayment.

Ferguson Yes, but probably not for a few years so we will cut student loans over in stage three or stage four. But the new system has got the ability for us to be more flexible in terms of how we are thinking about tax administration. It’s one of the benefits—is a greater agility around policy.

Shaw Great. Just going back to some of Grant’s questions around multinational tax avoidance, BEPS, and so on, I know that you’re doing a lot of really good work with the OECD and that that work is ongoing and has been for some time. There are jurisdictions that are moving ahead of the OECD time frame: the UK, France, and Australia. I think with kind of variable results obviously, but Australia does seem to have a fairly consistent rules-based approach, which does seem to yielding some results. Of course, we’re reasonably well gelled to Australia. I just wanted to get your sense of whether you think that is a bad idea, to be moving ahead of the OECD scale?

Ferguson I’ll let David add to it, but from my perspective New Zealand’s current international and domestic tax laws are pretty robust. Whilst we think there is some work to do we do not believe it is significant nor do we believe that there is significant tax at risk.

We have, over many years, shown our appetite to look at issues of international tax avoidance and tackle them operationally. So, we believe that operating with others is more appropriate for the risk in New Zealand and the nature of the New Zealand economy and our international trade and export business. Obviously we have a number of our multinationals that operate overseas and we want to ensure that those tax rules support them to continue to do business internationally as much as protect the base here. David, is there anything you want to add?

Carrigan No, that’s right. Just to add a few more specifics. You’re right that the UK and Australia have moved almost unilaterally and introduced—UK, their one’s actually already started, the Australian one hasn’t yet started, but they’ve introduced these things called diverted profit taxes, which we’re basically, at this stage, not convinced that they’re the right way to go. We think the better way to go is to take the rules we’ve already got and strengthen those.

The diverted profit taxes are separate penal taxes outside of the normal treaty system that the UK and Australia have decided to go with. Reasonably radical. In some ways it’s best to watch and see how that goes than be first mover. Because we are a small, open economy we do require investment. There’s a real balance to be struck here between getting the appropriate amount of tax and scaring away foreign investment. I think it’s a wait and see on the diverted profits taxes.
Shaw The corollary of that is investigations, and I notice that there’s been an upturn recently, but over the last several years there’s been a fairly significant decline in investigations at the large corporate level, which, of course, are against our existing laws. So I just wanted to—

Ferguson Yeah, myself and Arlene will probably take that one. I would say that large business and large business investigations in my experience are always lumpy in their profile. Large business, in itself, tends to go through periods of growth, periods of stability, and our investigations will follow some of those business cycles. So it’s not unusual an investigation into a large business and with a large business can take a number of years so the pattern is often quite lumpy between years, because you can’t see what’s been started, what’s closed, because they could take 2 to 3 years to work through. So the stats are always quite hard to get a sense of a pattern through. Do you want to add, Arlene?

White Just again with large corporates, our approach to getting their compliance and their records in has changed significantly in the last 3 years in that we’re sending out questionnaires for them to fill out—100 percent completion rate by large corporates. The data that we’re getting in is risk assessed against a lot of criteria, and it’s just more transparency actually in their reporting that’s allowed us to look at the amount of resources we invest in auditing them. It’s a good-news story.

Ferguson Those audit figures don’t include the 800 risk assessments that are made as a result of that questionnaire, which is quite a detailed piece of work.

Shaw You feel you’ve got the resources to be able to do that work adequately at that end?

Ferguson Yes.

Shaw When you were saying before about the level of risk to the New Zealand economy you didn’t feel justified unilateral action or fast action ahead of the curve? There are some people who have estimated that New Zealand may be missing out on somewhere between half a billion and a billion dollars, well just north of a billion dollars, worth of tax revenue a year. Do you concur with that? Or you think that that is actually an acceptable level of risk given the other circumstances?

Carrigan Just a little bit of context, if you look at our corporate tax take, which is $10 billion a year, which is pretty good, and it’s stayed pretty stable over a number of years. Whether we think we’re more vulnerable to BEPS than other countries, we have strong thin cap. rules, strong CFC rules, good transfer pricing guidelines. We think we’re reasonably well set up.

In terms of the actual amount of money at risk from that, I wouldn’t like to agree or disagree with that figure because I think it just all depends on how you think about it.

Ferguson I think we—as I say that risk assessment process means that we have detailed information on the 800 largest businesses operating here. Previously we had 600, we’ve just increased that, and that’s not leading us to
believe that there is a significant risk there that we need to change our approach about in terms of our operational activity.

Bishop    Yeah, I just wanted to—back on the student loans, which seem to be a topic of interest. So, obviously, the data matching with the tax office in Australia’s been very successful, which is good. What are the next steps around that? Can you extend that out to the UK, Canada, other similar cognate jurisdictions? Or is that a bit more difficult?

Ferguson  No, it’s certainly something that we already work with some of those parties and indeed have debt collection agencies working in those countries with us. Do you want to add?

White     We have actually entertained conversations with HMRC right now and are looking at a bilateral that we could engage with them and share data with them. It is always a matter of them wanting to share and us wanting and able to negotiate an agreement with them.

Bishop    The Australian stuff took a while to get the Government stuff to happen.

Ferguson  Yip.

Bishop    So that’ll just progress slightly?

Ferguson  Hopefully, yes.

White     It still about 65 percent of overseas-based borrowers reside in Australia so we do think we’re getting the majority of them, but those other jurisdictions are also part of our plan.

Ferguson  If Brexit continues they’ll be all be coming back anyhow.

Chair     Thank you very much, Commissioner and your team. We appreciate your time and your good work, so keep it up, OK. Thank you.

**conclusion of evidence**
2015/16 Annual review of the Ministry for Culture and Heritage, the Ministry of Pacific Island Affairs, the Ministry of Women’s Affairs, Statistics New Zealand, the Parliamentary Service, the Office of the Ombudsmen, and the New Zealand Fire Service Commission

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry for Culture and Heritage, the Ministry of Pacific Island Affairs, the Ministry of Women's Affairs, Statistics New Zealand, the Parliamentary Service, the Office of the Ombudsmen, and the New Zealand Fire Service Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
The Intelligence and Security Committee has conducted the 2015/16 annual review of the performance of the New Zealand Security Intelligence Service. The committee heard evidence in public from the New Zealand Security Intelligence Service and received advice from the Office of the Auditor-General.

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

Rt Hon John Key
Chairperson
2015/16 Annual review of the Office of the Clerk of the House of Representatives

Report of the Government Administration Committee

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Office of the Clerk of the House of Representatives

Recommendation

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the Office of the Clerk of the House of Representatives, and recommends that the House take note of its report.

About the Office of the Clerk

The Office of the Clerk is the legislature’s secretariat. It supports the House of Representatives in conducting its parliamentary business, and facilitates participation in and understanding of that business by members of Parliament and the people of New Zealand.

Financial performance and developments in 2015/16

The Office of the Clerk reported a surplus of $359,000 for the year ending 30 June 2016. The Office’s total operating revenue for 2015/16 was $19.376 million, up 1.1 percent from $19.164 million in 2014/15. Total expenditure was $19.017 million, an increase of 4.3 percent from $18.242 million in 2014/15.

The year was one of significant change in the Office of the Clerk, as it continued to implement recommendations from the Performance Improvement Framework (PIF) review published in July 2014. The reforms included moving to a new organisational structure, creating a new team of senior managers, merging the legal and policy services teams, and other staffing and institutional changes. The Office also focused on improving Parliament’s engagement with the New Zealand public, including through the launch of a new Parliament website, and the commencement of live captioning of proceedings on Parliament TV and the internet.

The Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the Office. We welcomed advice from the Office of the Auditor-General that deficiencies identified in its 2014/15 audit of the Office had been largely resolved, and that most of the key performance indicators for 2015/16 were met. We encourage the Office of the Clerk to continue its positive focus on reform and performance improvement.

Organisational reform

Training and retaining staff

The Office focused on developing its workforce capability to deliver better services to Parliament, in line with its major organisational review and change programme. Members of this committee have noted that the mix of new and experienced staff provided good support to Parliament during the year. We welcome the change processes aimed at improving the Office’s services to the House.

We questioned the Clerk about quality control procedures in the Office, to ensure that mistakes are not made and that all staff continue to operate in accordance with core values,
including impartiality. We see this as particularly important during a time of significant staff change.

The Clerk said he had put in place stronger measures for quality control, such as increased internal and peer review in both House and committee services. He believes this should minimise the risk of mistakes, but noted that it is impossible to completely remove the risk of human error from the Office’s work. The Office had also sought to improve the sharing of knowledge and information. For example, it had opened up weekly procedural meetings to all Office staff. The Office strongly promotes its core values among staff, and the Clerk is confident that staff understand and adhere to them, including impartiality and trustworthiness.

The Clerk also highlighted the documented improvement in staff engagement in 2015/16, and his commitment to continued improvement on this result.

We observed that funding for staff capability-building is to increase significantly in coming years, from $290,000 in 2016/17 to $1.272 million in 2019/20 and beyond. The Clerk observed that the new model for the Office has increased expectations on staff, so capability needed to be strengthened accordingly. The Office is undertaking a range of initiatives to support this, including a significant in-house training programme; the creation of understudy roles, secondments, and exchange opportunities; and refining recruitment, remuneration, and performance management.

We believe it will be important to monitor in coming years the progress and effectiveness of the Office’s efforts to build staff capability.

The Clerk acknowledged the importance of retaining staff, particularly in Parliament where roles tend to be quite specialised and learned through on-the-job experience. We agree that there will be a need to monitor staff retention in the coming years, to ensure that the new staffing numbers and arrangements, and the efforts being made to build the capability of staff, are appropriate and successful.

During this ongoing period of change it will also be important for the Office to monitor its delivery against its identified areas of strategic impact, including through robust systems for measuring and reporting on performance.

**Supporting inter-parliamentary relations**

We noted the importance of appropriate support for inter-parliamentary relations, including hosting visitors to New Zealand from other parliaments. We acknowledge work by the Office to make better use of existing funds in this area by increasing the proportion of the allocation spent on programmes. Staff salaries will be supported from the Office’s core budget.

**Coordination between the Office of the Clerk and the Parliamentary Service**

As part of the organisational reforms, the Office of the Clerk and the Parliamentary Service reviewed the operating model for providing Serjeant-at-Arms and Chamber support functions. They agreed to transfer those functions from the Parliamentary Service to the Office. We were advised that $225,000 was re-apportioned from the Parliamentary Service to the Office of the Clerk for 2016/17 and out-years, to cover the costs of that transfer of responsibilities. We have observed that the new arrangements for Chamber support are working well.
The mechanisms for coordination between the Parliamentary Service and the Office of the Clerk were also changed. The joint Parliamentary Advisory Board was abolished, in favour of regular meetings between the chief executives of the two agencies and a shared work programme. Subject-specific steering committees are established for joint projects when required. The Clerk told us that the Advisory Board was no longer needed, and the new broader framework for coordination was proving a more useful way of helping the Office to progress its work.

We will monitor how well these new arrangements are working for both agencies, and for the quality and efficiency of services to Parliament.

**Public engagement via broadcasting and the internet**

**Captioning**

We have taken a strong interest over some time in Parliament’s progress toward providing captioning services. We therefore applaud the Clerk and his staff on their successful work toward this during 2015/16. We were very pleased to note that this resulted in the commencement of live captioning on Parliament TV, the Parliament website, and internet applications early in the 2016/17 financial year. We also congratulate the Clerk on receiving the Broadcasting Captioning Award at the 2016 National Captioning Awards.

**Broadcasting proceedings of the House and committees**

We note that, despite a successful pilot of webcasting select committee proceedings, the Office of the Clerk has twice been unsuccessful in gaining additional funding to implement committee broadcasting on an ongoing basis. This is disappointing.

More broadly, we were advised that the Office is reviewing how it spends the existing allocation of approximately $4 million per year for parliamentary broadcasting. It is examining whether the present mix of expenditure between radio, television, and other media such as the internet should be maintained or altered. The Office is also investigating moving its video-on-demand service, from the discrete “In the House” website to the new Parliament website.

We agree that, with limited funding, the Office of the Clerk must be strategic and sensible about how it uses its funds to best communicate the work of Parliament to the people of New Zealand. We see this aspect of the Office’s work as extremely important. We encourage the Office to continue to critically examine its use of resources in this area. This should include the potential costs and benefits of moving toward more web-based broadcasting of both House and committee proceedings.

**Parliament TV**

We explored how the Office might better use the “down-time” on Parliament TV, when the House is not in session. For example, it might broadcast other useful content, such as educational material, to help people better understand the work of Parliament. The Clerk told us that such options are being considered, but so is the possibility of selling the unused airtime to another broadcaster. He noted that material other than parliamentary proceedings would not be privileged. Broadcasting by the Office of any other sort of programming would place it in an editorial role, which may not be appropriate. He noted that, if the unused airtime were sold, broadcasting by another entity during those times would not be under the Parliament TV brand.
Committee procedure

We met on 7 December 2016 and 8 March 2017 to consider the annual review of the Office of the Clerk of the House of Representatives. We heard evidence from the Clerk of the House, David Wilson, and the Senior Manager Organisational Performance, Ivan Jakich. We received advice from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chair)
Hon David Bennett
Barry Coates
Paul Foster-Bell
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Office of the Clerk of the House of Representatives, Response to supplementary written questions, 1 December 2016.

Office of the Clerk of the House of Representatives, Response to further supplementary questions, 3 February 2017.
The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Controller and Auditor-General, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
2015/16 Annual review of the Reserve Bank of New Zealand
Report of the Finance and Expenditure Committee

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Reserve Bank of New Zealand

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of the Reserve Bank of New Zealand, and recommends that the House take note of its report.

Introduction

As New Zealand’s central bank, the Reserve Bank works to maintain stability in prevailing prices and a sound and efficient financial system, and provides legal tender to meet the public’s currency needs. Its functions include monetary policy formulation, financial market operations, macro-financial stability, prudential supervision, settlement services, and currency operations.

The Governor of the Reserve Bank is Graeme Wheeler.

Funding arrangements

The Reserve Bank receives no direct government funding. It earns income from its substantial investments, which are funded by the issue of currency and from equity. A funding agreement with the Minister of Finance sets the maximum amount of the bank’s income that may be used to meet operating expenses in each financial year.

The current five-year funding agreement came into force in July 2015. It sets out expectations about the bank’s operating expenses, and certain levels of income, within which the bank is expected to manage its operations. The new agreement includes an expectation that the bank will make substantial efficiency savings.

Financial performance

The Reserve Bank had a net surplus for 2015/16 of $52 million, compared with $624 million the previous year. It paid a dividend of $140 million to the Crown, compared with $510 million the previous year. This level of dividend was possible by using $90 million of previously unrealised foreign exchange gains from 2015.

The Reserve Bank’s surplus results largely from decisions it makes in undertaking its policy functions in financial markets. Its primary focus is on carrying out these activities in the most efficient manner, rather than on maximising profit in all circumstances. Volatility in the surplus is expected when there is volatility in foreign exchange rates and interest rates.

The Reserve Bank’s net operating expenses were $71 million in 2015/16. This was about the same as the previous year ($70 million), despite the introduction of a new series of banknotes in 2015/16 at a net cost of $4.3 million.

The Bank’s net investment income in 2015/16 was $109 million. This was well below the previous year’s $681 million. The disparity is largely due to the appreciating New Zealand dollar that meant a large foreign exchange loss on the bank’s foreign currency holdings.
The Reserve Bank deliberately does not hedge its foreign exchange reserves. This allows it to intervene if necessary to support the New Zealand dollar, but also means its profits tend to be volatile.

**Audit opinion**

The Auditor-General issued a standard audit report. It gave the Bank’s management control environment, and its financial information systems and controls, the highest rating of “very good”, making no recommendations for improvement.

**Change management programme and efficiency efforts**

The Reserve Bank has continued a change management programme that it started in 2014/15, “Evolving as a Central Bank”. It aims to strengthen innovation, promote a high performance culture, reduce operating costs, and improve efficiency. The initial phase was completed in April 2015.

Under the change programme it undertook restructuring in early 2015 that resulted in 15 to 20 redundancies, with savings of $1.8 million a year (before redundancy costs). It projects ongoing savings of $1.5 million on a broad range of non-staff overhead costs (excluding currency). The bank is also consolidating its use of floor space and generating rental revenue by letting three floors of its building.

The Governor of the Reserve Bank commented that the Bank is operating on a tight budget, since its new funding agreement allows annual increases of only 1.2 percent a year. He would prefer to have more flexibility in managing the Bank’s operations.

**Macro-prudential policy**

The Reserve Bank oversees the stability of New Zealand’s macro-financial system. In recent years it has taken a larger role in the design and implementation of macro-prudential instruments.

In 2015/16 the Bank implemented loan-to-value (LVR) limits for owner-occupier and investor lending. Under these limits, banks are permitted to make no more than 10 percent of their residential mortgage lending to high-LVR (less than 20 percent deposit) borrowers who are owner-occupiers. No more than 5 percent of residential mortgage lending can go to high-LVR (less than 40 percent deposit) borrowers who are investors. These measures aim to increase the resilience of the domestic financial system and counter instability. They also help the Bank to analyse and report on the soundness and efficiency of the financial system.

We asked if these measures have increased the resilience of banks’ balance sheets. We were told that LVRs of greater than 80 percent have decreased markedly since late 2013, from 21 percent to 11 percent. Without these restrictions, the Bank estimates there would have been an additional $29 billion of high-LVR loans.

**Debt-to-income ratios**

We asked if the Reserve Bank was satisfied with its current macro-prudential tools. In particular, we note that it is in discussion with the Government about the possible introduction of debt-to-income (DTI) ratios. It has asked that such a tool be added to its memorandum of understanding on macro-prudential policy with the Minister of Finance.

The Reserve Bank noted that the proportion of lending at high DTI ratios has increased over the past two years. This can contribute to a build-up of financial stability risks.
Although it does not propose the use of such a tool at present, it observed that financial stability risks can build up quickly. It believes restrictions on high-DTI lending could be warranted if housing market imbalances were to deteriorate further.

**Depositor insurance**

We asked why New Zealand is the only OECD country that has not implemented depositor insurance. The Reserve Bank said that depositor insurance is most useful when there is a large number of small banks. New Zealand has a highly concentrated, foreign-owned banking system, dominated by four Australian parent banks. The Bank said it would take a significant period of time to build a fund for this purpose, potentially up to 30 years. We heard that the existing Open Bank Resolution policy provides scope for the Minister of Finance to determine a “de minimis” amount to protect small depositors. The Reserve Bank considers this approach preferable to depositor insurance.

We asked whether the implementation of depositor insurance could encourage competition in the New Zealand banking sector. We heard that the Bank was concerned that it could encourage consumers to use riskier lenders. Those with riskier assets could offer higher deposit rates. The Bank noted that this concern was evidenced by the example of South Canterbury Finance following the global financial crisis.

**Resilience of the banking sector**

In 2015/16, the Reserve Bank undertook a range of stress testing activities with banks. They covered various adverse economic scenarios, including sharp increases in unemployment; significant declines in house, farm, and commercial prices; and adverse changes in milk prices and land values for the dairy sector. These stress tests help the Bank to identify and assess financial system risks, and play a useful role in identifying and managing risks for individual banks.

In response to our written questions, we were told that, in the simulation, the banks saw significant credit losses that were only partly offset by net interest income. Bank capital remained above the minimum requirements, but came quite close to the minimum. We also heard that the stress testing of the dairy sector indicated that credit losses could be quite severe for that sector, but would not be as threatening as a broader economic downturn.

**Stocktake of banks and non-bank deposit takers**

The Reserve Bank undertook a regulatory stocktake of banks and non-bank deposit takers (NBDTs) in 2015/16. Its intention was to review ways of enhancing the efficiency, clarity, and consistency of the specific prudential requirements that apply to banks and NBDTs.

From the findings of the stocktake the Reserve Bank determined that there was room for improved and consistent reporting. It is consulting with the industry on a new form of electronic reporting, called the Dashboard, which aims to enhance quarterly disclosures for locally incorporated banks and thereby bolster market discipline.

The Reserve Bank is also working to improve the transparency of its policy making, including longer periods of public consultation, biannual publication of a newsletter, and default publication of the submissions it receives.

**Settlement services and financial market infrastructures**

As part of its role as system operator, the Reserve Bank provides specialised services to financial institutions in New Zealand. It operates the Exchange Settlement Account System.
(ESAS), which allows major financial institutions to make payments to each other in real time. It also operates the NZClear securities settlement system, which allows buyers and sellers of securities to settle transactions efficiently and securely.

The Reserve Bank is currently in the process of replacing both the ESAS and NZClear settlements and clearing systems, to ensure they are fit for purpose. We asked about the cost of replacing these systems and the potential risks involved, given the Crown’s poor track record with IT procurement.

We were told that the total programme entails capital costs of $28 million. This covers three components: the real-time gross settlement system for inter-bank transactions, the NZClear system for securities, and the underlying financial market infrastructures (FMIs) which we discuss below.¹

For quality assurance over the programme, the Bank has contracted the independent assurance firm Gemtech. This firm has assessed the Reserve Bank’s own capability and planning preparedness, and will undertake further reviews at key milestones. A senior manager from the Ministry of Business, Innovation and Employment is also on the programme management board.

The Bank has selected Italian firm SIA, with its South African subsidiary Perago, to implement a new real-time gross settlement system to replace the ESAS system. It had sought to sell the NZClear system, as it is not essential to the Bank’s core business, but concluded the search without attracting any suitable bids. The Bank will now invest in a new platform for this securities settlement service, and may consider sale at some future time. We heard that design of the replacement system by Perago is now advanced. The Bank assured us that the contract includes strong provisions regarding liabilities and incentives.

Oversight of financial market infrastructures

In its regulatory capacity, the Reserve Bank has responsibility for overseeing the banking payments systems and New Zealand’s financial market infrastructures.

The Bank considers that its current oversight regime for FMIs is no longer fit for purpose. As part of the $28-million capital programme discussed above, it has contracted Datacom to help it to develop an enhanced and more comprehensive framework for the oversight of New Zealand’s FMIs. It hopes to see the new framework come into force in 2017, but this will require legislative change.

We heard that the framework needs upgrading because of the rapid pace of innovation and technological change, outsourcing of third-party infrastructures, and growth in payments fraud. In the Bank’s opinion, enhanced powers over FMIs, especially arrangements for crisis management, would align New Zealand with international standards set out in the Principles for FMIs (PFMIs).

¹ Financial market infrastructures are the channels through which financial institutions, governments, businesses, and individuals transmit money and financial instruments.
Appendix A

Committee procedure
We met on 7 December 2016 and 15 March 2017 to consider the 2015/16 annual review of the Reserve Bank of New Zealand. We heard evidence from the Reserve Bank of New Zealand and received advice from the Office of the Auditor-General.

Committee members
Chris Bishop (Chairperson)
Andrew Bayly
Hon Clayton Cosgrove
Hon Craig Foss
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
David Seymour
Alastair Scott
James Shaw
Michael Wood

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Office of the Auditor-General, Briefing on Reserve Bank of New Zealand, dated 7 December 2016.
Reserve Bank of New Zealand, Responses to written questions, dated 28 November, and 5 and 19 December 2016.
Appendix B

Transcript of the hearing on 7 December 2016

Members

David Bennett (Chairperson)
Chris Bishop
Andrew Bayly
Hon Clayton Cosgrove
Matt Doocy
Sue Moroney
Rt Hon Winston Peters
Grant Robertson
Alastair Scott
James Shaw
Phil Twyford

Witnesses

Reserve Bank of New Zealand:
Graeme Wheeler, Governor
Grant Spencer, Deputy Governor, Head of Financial Stability
Geoff Bascand, Deputy Governor, Head of Operations

Chair

So, we’ve got till midday, but we probably won’t need all that time I don’t think, so maybe give a brief introduction and we can open it up to questions.

Wheeler

Thanks Chair, and it’s good to be back here again and I will keep it brief. On my left is Grant Spencer, the Deputy Governor and Head of Financial Stability, and on my right is Geoff Bascand, Deputy Governor and Head of Operations. So against the challenging global background, the New Zealand economy is performing relatively well. The economy is in its 8th year of expansion and annual GDP growth is running around 3.5 percent. Inflation has been low, largely due to persistent weak tradables inflation, but is expected to be back within the target band from the December quarter. Interest rates have come down by 1.5 to 2 percent over the past year, and we may have seen the bottom of the cycle. The housing market remains heavily stretched, but has shown some signs of moderating. Dairy prices have recovered in recent months, and the average dairy farm is expected to return to profitability this season, however indebtedness in the sector has increased, leaving the sector vulnerable to future shocks.

The bank has one of the widest ranges of responsibilities of any central bank in the world. It is carrying out its functions under tight funding constraints. Our annual report describes our three main strategies to ensure...
we deliver on our statutory responsibilities. This involves strengthening the
bank’s performance by improving efficiency and business results and
continuing to build leadership capability, developing a more comprehensive
approach to the bank’s policies, and continuing to improve the bank’s
infrastructure and reduce enterprise risks. In terms of financial results, we
returned a net surplus of $52 million. We were able to pay a dividend of
$140 million because in 2015 we had retained $90 million of then unrealised
FX gains. The bank remains well-capitalised. So thanks very much Chair.

Robertson

Thank you very much, and as we’re seeing you relatively recently after we
last did, I’m going to focus not so much on the monetary policy matters,
but some of the operational issues and the tighter settings in which you
work today and we’ll come back to those other matters again, I’m sure.
The first is I do want to go to quite a specific matter, which is the
replacement of your systems within your payment systems. Firstly, could we
get some facts clear on the table. How much has been spent on that to date,
do you know, and what is the overall budget and cost of the replacement of
those systems? That’s my first question. I notice in your answers to our
questions that you’ve done a bit of quality assurance work to try and assure
yourselves that you’ve got the right systems in place, but I’d ask you to
reassure us that that’s the case, and give us those numbers that you’ve got.

Bascand

Thank you Mr Robertson. The cost to date, I’m not totally sure of. It’s a
relatively minor—it’s been through the main project planning preparation
development stage. I could obtain that figure for you, but we haven’t been
paying the substantial development cost parts of the bills as yet. The total
cost of the programme, in capital cost terms, is expected to be in the order
of $28 million. There are three main sub-components of the programme.
There’s what we call the real-time gross settlement system—the inter-bank
system replacement—there’s the securities depository NZClear system, and
then there’s the underlying infrastructure, so three components. That cost
component is the total of those three screens.

In terms of the quality assurance, we have contracted an independent
project assurance firm, one of the all-of-Government panel members,
Gemtech; they have undertaken a number of assurances for us, both on the
capability of the vendor, which is Italian firm SIA, with a South African
subsidiary Perago. They’ve also undertaken an assessment of our own
capability and planning preparedness and will undertake further reviews at
key milestones or stage gates on the project as we go forward. Our audit
committee has also examined the project and has been comfortable with the
progress and work that we’re making so far.

Robertson

Just a couple of questions about what that means for the financial system.
Grant, in a speech you gave a wee while back, you talked about the risks
that you saw. The language was quite strong. In there you talked about a
higher level of risk for financial institutions in New Zealand, and, I think
probably from the point of view of this committee, this raises some red
flags and we really do need, I think, a lot clearer assurances from you and
from the bank that this is the right path to be going down. Would you like to comment on that?

Spencer Well from our point of view we have our own systems that we operate, which is the inter-bank exchange settlement system and NZClear, the security system, so this upgrade is making sure that we’re on top of our game in terms of providing a good service in those two areas. The other area, of course, is where we oversee the broader payment system, or what we call FMIs—financial market infrastructures—and we put together an improved, somewhat more comprehensive oversight framework which is in train at present in terms of getting it through. It should come in to force, hopefully, next year, but has not gone through the legislation changes yet. But that will beef up our broader oversight of the regime.

Robertson And I guess what I’m trying to assess is the relationship between your ability to do that, and the new systems that you’re bringing in and your confidence about that.

Spencer Well they’re not dependent on each other, but there is a sort of a Chinese wall within the bank, so Geoff’s operating those systems and they are designated, so our prudential side of the bank does oversee those systems, and they are designated; they have gone through the oversight process.

Robertson Mr Chair, are we going to be operating the old way—so, I’ll keep going until you stop me? Thank you. Good to have that assurance. I just want to move on to some more issues around the operations of the bank in relation to the overall system. Are you satisfied, Governor, with where you’re at in terms of your ability to bring in new macro-prudential tools? You’re obviously in this ongoing discussion with the Government around debt-to-income ratios. Do you think you’re able to work with the Government and there’s a sufficiently clear, robust process with good time lines? Is there anything you’d like to change about that?

Wheeler If I could just go back on the payment systems for just a moment. I mean, we did try and sell NZClear, which is the central securities depository. And, in the end, working closely with the preferred bidder, we couldn’t agree on the final terms. We’d regarded that as not core business for the bank, so now we’re in the process of having to upgrade NZClear and time will tell whether we try and sell it again at some future point.

Robertson Sorry, since you’ve come back on that. You used the phrase when you were doing your introductory comments about the bank having one of the widest ranges of responsibilities of any central bank in New Zealand. Are you indicating that you think that should be narrower?

Wheeler No. You know, if you look internationally, I think the central banks with the broadest responsibilities are probably, I think, New Zealand, the Bank of Israel, Monetary Authority of Singapore. So we’ve got the regulatory and supervisory functions, we’ve got anti-money-laundering, we’ve got the insurance, we’ve got macro-prudential policy, intervention policy, custody, currency, and all of that, so—some central banks don’t have all those functions, for example. It’s a complex set of businesses that we run. There’s
250 people; there’s a tight budget. I mean, we’re on a 5-year funding agreement with annual increases of 1.2 percent a year so, you know, we had a number of redundancies last year—between 15 and 20—so we are operating on a tight budget, and that’s where I would rather see the flexibility, to be frank.

Robertson Yeah, well, we can go back to the macro-prudential question then.

Wheeler In terms of our ability to do the analysis and then monitor compliance with things such as loan-to-value ratios, we’ve invested heavily in gathering data from the banks. We’ve engaged intensively with the chief executives and made the arrangements—requirement of bank establishment, if you like, bank registration, so we feel that we can research, analyse, collect the data and monitor the outcomes there pretty well.

Robertson I guess my question was more around the process of adding a new tool, like DTIs, and whether you’re comfortable with that process that it works well for you.

Wheeler We have a process where there’s a memorandum of understanding between the finance Minister and ourselves about what instruments can be introduced. I think as the committee knows, we’re in discussions with the Government about the desire that we would like to see of introducing debt-to-income ratios as a tool under the macro-prudential set of policies—macro-prudential memorandum of understanding, forgive me. So we’re in discussion with the Government. It’s the Government’s decision whether to include those as a set of instruments; we’re making the case. We’ve also made it clear that at this point we don’t think we would use that instrument.

Robertson Yeah. Sorry to labour the point a little though. If at the end of this the Government says no, you’ve made it clear this is something you want on the table. Are you comfortable with that process that you are limited in that way?

Wheeler Well, it is the Government’s decision if that turns out that way, and we need to respect the role of Government in this process.

Robertson There’s been a lot of talk this year about the relationships between fiscal policy and monetary policy. Are you comfortable that you’re in a position to be listened to sufficiently? I mean what level of interaction are you having with the Treasury, in terms of how those two things fit together? Mr Makhlouf made an interesting speech at the beginning of November where he talked about the relationship between monetary and fiscal policy. He came to us last week and told us he wasn’t really talking about New Zealand, he was talking about international experience. But are you comfortable that in New Zealand we have the forums and the ways of drawing those things as close together as they need to be, whilst retaining your independence, obviously?

Wheeler Yes, I think so. There’s a lot of discussion takes place between the central bank and the Treasury on fiscal policy, and we have those discussions with the finance Minister from time to time. I think there was a concern at one point that the Treasury had a position that, by and large, the central bank
should use up every degree of capacity it has to lower interest rates and then maybe fiscal policy might be applied. I don’t think that’s the way you think about monetary-fiscal mix. I think it’s a much more integrated consideration about what’s the appropriate fiscal policy over time, and what role can monetary policy play. You don’t exhaust one instrument and then say maybe we can now look at the other.

Robertson Just a last question related to that. Are you satisfied—one of the debates we’ve had in here a lot has been around projections around immigration and I think everybody here would agree that as we look at the ski jump, sort of cliff face, approach that says we’re going to return to the long run average very, very soon that it doesn’t really bear a lot of scrutiny. Are you satisfied that in terms of the way yourself and Treasury are looking at immigration projections that we are getting the consistent and right picture, and, just as a last point on that, where do you see that ending up over the next couple of years?

Wheeler Yeah, it’s tough and we’ve been wrong in our forecasts, as I think pretty well every other forecaster has. If you look at net permanent long-term migration of working age population it’s been 173,000 people since 2012. That’s a 5 percent increase in the labour supply, and I don’t think anyone anticipated that sort of growth. In terms of our forecasts, with certain degrees of uncertainty around it, to say the least, we’re saying that there could be another 120,000. Now what we can forecast reasonably well, in terms of our modelling, is departures, because there’s a link between departures and the Australian labour market. What we aren’t good at forecasting, and I think we share that outcome with many other forecasters, is the arrivals. It’s the student arrivals, it’s the returning New Zealanders, it’s the people coming on single work permits. That’s where our forecast errors come.

Cosgrove Yeah, in terms of the SIA system, and the—it’s a $10 million budget?

Bascand 28, I think.

Cosgrove $28 million budget. And is that fixed or is that—is there scope for flexibility around it? I suppose my question, basically, [Inaudible].

Bascand So that’s a capital budget. There’s obviously an ongoing support component as well. The capital budgets through our internal processes of budget decision making, capital management, and review with, as I said, with the order committee and with the senior management.

Cosgrove Is the total budget for everything 28 million, or is it 28—if that’s just capital, what’s the total?

Bascand Well, that’s to put it in place, then for it to be supported on an ongoing basis is around 5 million broadly speaking.

Cosgrove That’s ongoing cost while it’s operational?

Bascand Correct.

Cosgrove Sorry, what I’m asking is to get it to operational function—
Cosgrove—28 all up. In terms of the management work that you have around it, could you tell us what’s the make up of that group and do you have any independent—I know IRD have got independent people because of the Novopay debacle [Inaudible].

Bascand We do. You’re absolutely right. This is a crucial project. It’s in a high-risk, highly important area, and we do need the system to work to support inter-bank settlements. It’s something we’re running now, we’re running it well, so in terms of business risk, the existing system is operating fine and will continue to do so. But eventually they run out of technological life and you need an upgrade, partly for security reasons, partly for some flexibility, and just obsolescence reasons. So that’s what’s been behind the project. We have a full-blown programme management regime operating, programme management board, which I chair. It does have an independent member, that’s to say, we’ve got an outside member from MBIE senior management on it, plus we’ve co-opted the external insurance provider Gemtech, as I said, to sit on the board as well.

Cosgrove Could you just give us the flavour of the make up of the committee? So you’ve got your own internal people, you’ve got a bureaucrat from MBIE, and are you saying the other person has technical expertise in respect of the IT project?

Bascand So, it follows programme management methodology of having a sponsor, business owner, vendors, supplier, users, and independent members on it. So our users, which are partly our own internal users, are represented. Our IT CIO is on the group. External assurance—as I said, Gemtech sits as a member of the board. And it’s a senior manager with financial sector understanding and practice from MBIE.

Cosgrove I understand the contract will be commercial, so we understand that, but can you give us some assurance—and the basis of the question again is, if you look at the track record of the Crown in respect to IT procurement, it’s been pretty awful and pretty ugly for an extensive period of time. And what tends to happen, and you’ll know the examples, are that spec control is lost, that it doesn’t work, and then we have, unlike the private sector where you go back and sue them and get your money back or get one that works, a whole lot of general excuses from the bureaucracies to their contract and the complexity, and, by the way, we’re tied up in knots. Can you give us, within the bounds of your own restrictions, an assurance that those sorts of issues are dealt with under the contract [Inaudible] if it doesn’t work, we’re not going to see a pile of dough go down the toilet.

Bascand We’re very mindful to manage the financial and commercial as well as the operational risks. And so, yes, we—actually, as we’re describing it we are still in some final steps of contract negotiation on the NZClear central securities depository component. We had agreed contract on the RTGS. We’re expanding it, if you like, to the NZClear. It’s almost completed, but part of the final negotiations has been making sure we’ve got appropriate liability provisions and incentive provisions for Perago to deliver to our
expectations. So, yes, we’re having legal review of that, both internally and commercially, through commercial lawyers, making all of that clear. Similarly, in the contract for the infrastructure, which is a separate contract with Datacom, again we’re just completing all that due diligence in making sure that contract has the right liability provisions. We’re confident we’re going to deliver this, and deliver this well. There’s always some budget risk and variation. Ultimately, getting it to work appropriately and effectively is more important than the budget, but I believe we can do it within the budget that we’ve set.

Cosgrove I must confess I’m a bit old fashioned, I do like budgets, and I indeed try and tend to stick to them, and it’s variable from time to time in my household. But how much flexibility, therefore, is built into the budget? So, can it go beyond 28—

Bascand There’s a 20 percent contingency sum built into that number we’ve given you.

Cosgrave OK, so it potentially is greater than $28 million.

Bascand It’s potentially. Potentially, but we’ve built that contingency into the 28. There’s a 20 percent contingency in. So, in a sense, the expected cost is lower than that, it allows us to cover some risk. And we’re at such a planning stage, late in this project, that you wouldn’t expect a huge contingency. Very early on, business case stage, you put a 50 percent number on it, but as you get further into the detail that the risk reduces. So we’ve still got a substantial portion. I mean, that’s approximately $5 million of contingent costs that we’ve budgeted for.

Wheeler We do take the capital management in the operating budget very seriously. As I said, it’s a tough budget that we’ve got: a 5-year funding agreement, basically 1.2 percent a year for the next 5 years. We’ve had, as I said, lay-offs of 15 to 20 staff. In an operation of 250 people that’s significant. We’re currently preparing three floors to be let out in order to generate revenue. We know that we can capitalise a lot of the expense here, but, in the end, it will be a charge against operating expenditure, and that will have to be within the overall budget cap. We’ve just introduced bank notes for all of New Zealand. That was a cost overall of $75 million. We underspent that budget. So we have put a lot of time into quality assurance.

Cosgrove You should offer your services as a consultant to some other Government departments. Could I just ask you finally—and I’m not being jingoistic but I’d just like to know—in your tender process, was there any New Zealand company that could have provided the product that you required for this system, well firstly? And if there wasn’t then we understand why you’ve gone offshore. If there was can you, again within your restrictions, can you give us a flavour as to why New Zealand wasn’t up to it to provide this?

Bascand We did go through a full—we went through a request for information phase and then an RFP phase on the RTGS system. We also went through a request for information phase on the CSD and the full tender process on the infrastructure. The infrastructure is being provided by Datacom, which
on the applications, had the software for the RTGS and the security system. They were mostly international firms that we did actually have—I believe one New Zealand, two New Zealand firms? One New Zealand firm. In the tender process we went through tender evaluation considerations of capability, cost, had criteria set, and SIA Perago were the strongest.

Cosgrove: Have they put the system in place in other reserve banks around the world?

Bascand: They’ve put the RTGS system in a number of places, Scandinavian central banks in particular that we benchmark ourselves with: Sweden, Norway, Denmark. The securities depository system is, really, still a development phase. It’s being implemented in Kenya, but it tends to be something that there’s not a common system around the world for, so you do get more bespoke developments. I think they see the development for us as something which will help to globalise—that they are a very strong financial infrastructure company. They operate strongly in Italy, many other European nations. As I say, the RTGS is more standard.

Shaw: I just wanted to return to the conversation you were having with Grant before about instruments that you’re looking for, and I know that we’ve had this conversation before, about deposit insurance. But in the statement that put out a couple of weeks ago, you’re highlighting again the build-up of the asset bubble around housing in particular, and the risk that that poses to the economy. I want to acknowledge all the work you’ve put in to ensuring the resilience of the financial sector if that pops any time soon. But we are now, now that Israel’s brought in depositor insurance, we are the only OECD country—and with the sale of Kiwibank to the Super Fund, they’ve withdrawn their depositor insurance, and Post has withdrawn their depositor insurance. If we’re sort of talking about other instruments that the bank may be looking for, I wonder if you’d be open to—or what your thoughts are about the possibility of bringing in depositor insurance in New Zealand in the circumstances that we’re in at the moment.

Wheeler: The concerns that we’ve had—and you are right, we’re the only country in the OECD that doesn’t have it and Israel is in the process of introducing it. The concerns we’ve had are that we’re a highly concentrated, foreign-owned banking system, owned by four Australian parent banks—have a large presence here. We’ve felt that if you develop a fund, it would take an awful long time to build up a deposit insurance fund. Where they tend to be most successful are in banking systems which have a large number of very small banks, and some of those collapse over time. As I say, our set up is completely different here. So it would take a long time to build up a fund like that.

We do worry about moral hazard issues. For example, what is the incentives that bank managers would face, knowing that there is a bail-out fund set up. We also think, if you were to set up a fund and charge premia in order to build that fund up, then you would want to make sure that you were adopting appropriate credit risk pricing to build up that fund. So you’d be saying, bank X, the deposit insurance levy on that is so much, bank Y is so
much again, so you’d end up with differential rates depending upon which
bank is involved. Let me see if Grant wanted to add anything.

Spencer I’d just add that under the Open Bank Resolution policy, there is scope for
the Minister to determine a de minimus amount, a small amount which
would protect, to some extent, small depositors, so that that would be
excluded from the sort of haircut of other creditors.

Shaw That’s about $5 thousand, isn’t it? It’s a very, very—

Spencer It’s not a predetermined amount, there’s some discussion that we’re having
as to whether to fix that more specifically, but at present it’s at the
discretion. But it would be of that order.

Shaw There is a view that one of the reasons why we’ve got this concentration—
or this lack of competition in the banking system in New Zealand—is
because people don’t feel confident enough to put their money in anything
other than the big brand banks, and that a depositor insurance scheme may
actually encourage competition because people would be more likely to put
their money into other banks and to start to build up a more diverse
landscape.

Spencer But we don’t want, sort of, unfair competition in the sense of money
heading for the riskier businesses, who have riskier assets, earn a higher
return on those assets, and therefore pay higher deposit rates. We all
remember, of course, South Canterbury, that example where they were put,
effectively, on an even footing with the banks because of the guarantee that
was in place at that time, and there was a significant flow of money into that
institution, and that was a riskier institution, and people suffered and the
Government suffered as a result. As Graeme was saying, to avoid that you
need a risk-adjusted insurance premium if you’re going to apply it. When
you look around the world, you never actually see proper risk-adjusted
premia because there’s a tendency for the same premium to be applied in
practice, which means that you often have in these guarantee systems, or
depositor insurance systems, a bias towards the flow of funds to riskier
banks. And this moral hazard issue is at the heart of our concern about—

Shaw Wouldn’t it be the Reserve Bank’s role to ensure that risk was priced?

Spencer That could be—it depends how it’s set up. But if you recall the DGS during
the crisis, the global financial crisis, that in principle was meant to be risk
adjusted, and there was some differentiation, but it was not sufficient to
reflect the difference in risk between the institutions. We had the flows as a
result that I was talking about.

Shaw What you’re saying is you could design it in such a way that—

Spencer You could, yeah. But it becomes subject to political influence and that’s
essentially what happened in the GFC.

Peters But the GFC never qualified in the first place, and then the government
didn’t cap its liability or its support. Why are you using this as a moral
hazard matter as an example and on some sort of analogy about a lack of
cautions? Fully, this was a matter that showed up appalling bureaucratic and
political judgment, and we happened to have had an inquiry about it. Right?
Alright, well look, the sad thing is, with all these countries in the OECD not
being beset by this thing called moral hazard, why are you on the issue of
the OBR?

Spencer Well, you know, there are pros and cons for deposit insurance. So we
support more the approach of de minimus as a way of protecting small
deposit holders, rather than putting in protection for 250,000 as, for
example, you might have in Australia.

Peters The Aussie banks—in Australia, there the Aussie depositor has a protection
amount. The same bank here, making greater profits than they are in
Australia, have no protections for our depositors.

Spencer That’s correct, except for the de minimus amount, which is a much smaller
amount, as I was saying. That is a choice, and there are pros and cons. The
concerns at the end of the day come down to the moral hazard issue, and
then the fiscal cost. Because the other argument is always you reduce the
potential fiscal cost if you can build up a fund to support such insurance,
but, as Graeme said, with a concentrated banking system, it would take you,
you know, 30 years or something to get anywhere near a fund that could
support it. In the meantime, Government is going to have to underwrite
any such scheme.

Peters Which is what they do in the OECD.

Wheeler Well, Australia has a guarantee of $250,000, and the Australian
Government’s prepared to put taxpayer funding, that contingent liability,
behind it.

Shaw That’s a very high number though. I mean that’s much, much higher than
most other countries deposit insurance, which is more closer to the New
Zealand dollar equivalent of about 50 or 100.

Wheeler Some of the European countries are closer to 100, yeah.

Peters Gentlemen, the Reserve Bank’s politically neutral, isn’t it?

Wheeler We intend to be, certainly intend to be.

Peters Alright. I’m going to ask you this question. You recited—you said at the
start that GDP growth was what 3.5, 3.6?

Wheeler It’s running around 3.5 at the present, yeah.

Peters About 3.5. Now the population growth is about 2 percent, right? Alright. So
what is your real rate of growth? If your population growth is 2 percent,
your GDPs at 3.5, what’s your real rate of growth?

Wheeler If where you’re heading is to say “Look, in terms in per capita GDP growth,
it’s a lot less impressive”, that’s indeed correct. Just like—

Peters It’s about 1.5.

Wheeler Just like the rate of productivity growth in the country is disappointing.

Peters Well you know where I’m heading, because the wealth per person is not
going that way. It’s going the other direction. And I’m not hearing 1.5
percent out there in real terms, I’m hearing rock star economy 3.5 over and over again, from the Reserve Bank and every other bank in its cacophony of praise of what’s going on. But out there Joe Bloggs does not think that and he’s actually right. Less than 1.5 percent is what we’re putting up with, which is barely the OECD average.

Wheeler If you look at the recoveries that have taken place since the global financial crisis, the recoveries in all the advanced economies have been weaker than they have been, by and large, since World War II. And we’re no exception. We’ve got a recovery that’s been growing—an expansion that’s been under way for 8 years, the average rate of growth, not per person, but the average rate of growth has been 2.5 percent and has now accelerated to 3.5 percent. In all those countries, per capital GDP growth has also been weak, relative to other expansions. So we’re no different, and if you’re saying “Is it a disappointing rate of growth in terms of per capita GDP?”, I would agree. Yes, it’s low.

Peters Well, now, I didn’t read that in your report.

Wheeler We’ve commented on that in speeches. I’m giving a speech tomorrow and I’m talking about that.

Peters You going to highlight it?

Wheeler You’ll see it in the speech pretty clearly.

Peters Well it’s relatively important because my colleagues over here are about to choose a new leader and they’ll want to know as much as I do about the honest and transparent nature of our economy. You people are politically neutral but we’re not, but we do admire neutral information, and I want to hear what’s actually happening, not this rock star rubbish which is not the case. One last thing. Forecasting immigration and student arrivals: you said the principle reasons why it was so difficult to work out what was going on. If we had an immigration policy that was focused and targeted and specific as to who and who could not arrive and on what conditions, why would forecasting be so difficult?

Wheeler There will always be returning New Zealanders. The variabilities come—as I say, there’s three components: it’s the student arrivals, it’s the returning New Zealanders and, by and large, a lot of people coming back on single work permits that were initially coming into Canterbury for the reconstruction, now into Auckland for the rebuilding residential and commercial building, and other activities in that. If the Government had clear limits, then that might make it easier to forecast in that sense.

Peters Yes, but you say that the information you’re getting from departures is much more—you’re much more able to make—

Wheeler We can model that better.

Peters But why would that be the case?

Wheeler Because there’s a linkage between a lot of people leaving—head to the Australian labour market, and given that the Australian labour market has not been performing anywhere near as strongly as New Zealand, and has a
GDP number out today with the markets anticipating, in fact, negative GDP growth for the quarter, time will tell, we'll see later today. But it is a weaker labour market, and there is a reasonable correlation between the departures and the state of the Australian unemployment and employment growth.

Peters  Well, just one thing, the papers at the moment are jammed full of information about immigration matters, which have been, in terms of their lack of clarity, around for years now. But are you really saying that the immigration policy is so loose it’s very hard to forecast what is actually happening. You’ve got students coming in with 20-hour week work visas, working 60 hours illegally, everything’s going wrong, it’s an absolute circus. So it’s difficult to make forecasts from this information. Is that what you’re saying?

Wheeler  I’m saying that it’s difficult to forecast the arrivals because of the groups that I mentioned. That’s probably where I’d leave it. Did you want to add anything Grant?

Spencer  It’s what you set the policy. You don’t let so many in and then shut the door. So you have to set a policy, a point system and certain criteria for students and then you never know for sure how many people are going to meet those criteria. So then as the flow continues then the policy can be adjusted, but you don’t want to be fine tuning policy every 6 months, so it becomes a gradual adjustment process.

Peters  Other countries fine tune policies month after month. On this matter, they are seriously focused on it. Why aren’t we?

Spencer  The bank doesn’t have responsibility for that.

Chair  Thank you very much Governor, I appreciate your time. Any further information required?

**conclusion of evidence**
2015/16 annual review of Southern Response Earthquake Services Limited

Report of the Finance and Expenditure Committee

The Finance and Expenditure Committee has conducted the annual review of the 2015/16 performance and current operations of 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
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State Services Commission

Recommendation
The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the State Services Commission, and recommends that the House take note of its report.

Introduction
The State Services Commission (SSC) is charged with overseeing, managing, and improving the performance of the State sector and its organisations.

The State Services Commissioner is the head of the State services. The commissioner has a central role in maintaining and developing the performance of the State sector through his functions under the State Sector Act 1988.

Iain Rennie was the commissioner during the year under review. He stepped down at the end of June 2016, after eight years in the role. Our hearing was with Peter Hughes, who took over as commissioner in July 2016.

The commission’s total income in 2015/16 was $29.013 million and total expenses were $28.244 million, resulting in a net surplus of $769,000.

Key opportunities and challenges for State services
We asked the new commissioner what he sees as the key opportunities and challenges for improving State services.

A key opportunity is to better integrate public services through sharing and using data. This could enable more targeted and innovative services for the New Zealand public, to best meet the needs of communities. This also presents a challenge, as balancing the day-to-day responsibilities of individual agencies with innovation and collaboration is not easy.

Better Public Services
The commissioner said that, from his perspective, the targets set under the Government’s Better Public Services programme have been very successful. They provide an incentive for public servants and agencies to work together collaboratively. They also help them to focus on meeting the needs of individuals and families who may not fit neatly into defined client groups.

Cultivating leadership in the State sector
In the past, developing leadership was primarily the responsibility of individual public service chief executives. However, the SSC has worked in recent years to offer tailored, targeted development opportunities to the pool of senior public servants. The new commissioner told us he intends to continue this approach, but to broaden and deepen the current group of leaders by including senior operational leaders. The commission’s Leadership Development Centre is leading this work.
During 2015/16 a Talent Management Information System (TMIS) was deployed across agencies and within the SSC. This provides a database to guide development and assess leadership skills across the State services.

**Improving performance across the State system**

Since 2010, the SSC has led regular reviews of State sector agencies using the Performance Improvement Framework (PIF) approach. PIF reviews aim to help senior leaders to lead performance improvement in their agencies. Each review has focused on an individual agency.

During 2015/16 the SSC refreshed the PIF questions, and trialled a new sector-wide approach. A pilot with the Ministry of Education and six education-sector agencies tested how the PIF approach could be used to help agencies focus on performance improvement across the education system as a whole, rather than just within individual agencies.

We discussed where the pilot might lead. The commissioner said he hoped to see future reviews increasingly focus on performance improvements at a system-wide level. He said they would consider whether agencies are well aligned and “flying in formation” to deliver on their shared purpose and common customers. For example, a review of the Ministry of Justice could cover the Police, Corrections, and other agencies since the ministry is the lead agency for the whole justice system.

We asked whether this new PIF approach could be used to gain the benefits of a coherent approach without going through more expensive and formal structural changes such as a merger. The commissioner confirmed that this is part of the rationale. He said he has also started working with all public service chief executives as a single State services leadership team. He commented that “you can get quite a distance” if the leadership teams of all agencies in a sector work together. They should have a shared vision for the future, a common plan and strategy, and commitment to behaving in a consistent way.

We noted that chief executives gave a lower rating in 2015/16 to the benefit of PIF reviews relative to the effort involved. The SSC informed us that it has asked Victoria University of Wellington to conduct an evaluation of the PIF. It hopes this will provide insights into how PIF reviews are perceived and where the value of the work lies.

**Coordinating the public service in Auckland**

In 2015, the SSC assumed leadership of the Auckland Policy Office (APO) from the Ministry of Business, Innovation and Employment. This followed a review in 2014 by the former chief executive of Auckland Council.\(^1\) A deputy commissioner is now based in Auckland, and in effect leads government services there. We asked about the challenges and opportunities facing the public service in Auckland, and about the progress made in engaging with key stakeholders.

The SSC said that the new role seeks to get the State services in Auckland better aligned towards a common purpose, based around the Auckland Plan. One example of trying to achieve this is through the Auckland Transport Alignment Project. The APO is working with several agencies, including Auckland Council, to reduce congestion by coordinating central government policy with local government plans.

\(^1\) “Review of Central Government Policy, Implementation, Strategy and Leadership Effectiveness in Auckland” (the McKay report).
The commissioner noted that, for the first time, all 32 public service chief executives had met recently in Auckland with 150 stakeholders. As well as helping to develop relationships, this was useful to ensure that all parties are working off a common set of data and information. This would facilitate action, rather than debate over what the problem is.

**The independence and integrity of the public service**

We discussed the SSC’s role in maintaining the political neutrality of the public service.

The commission noted that the role of public servants is to advise the Government of the day on the policy and direction it wishes to set, and on how to execute that. The commissioner said he believes most public servants are very careful not to become involved in political decision-making. He believes they understand that political neutrality is one of the cornerstones of the public service, along with free, frank and fearless advice; and independent, merit-based appointments.

The commissioner said he works hard to protect and nurture these principles. He is in regular contact with chief executives, and they share his awareness of the need for constant vigilance. He added that he would have no difficulty in intervening with a chief executive or Minister if necessary to uphold the principles, or in meeting with the Leader of the Opposition to discuss any concerns.

We note that, following a recent investigation, the commissioner wrote to all chief executives reinforcing his expectations about maintaining confidentiality of government information, and about engagement with members of Parliament.

**Promoting open government**

The commissioner commented that he would add a fourth cornerstone to the principles underpinning New Zealand’s public service: open government. He said he is working with the Chief Ombudsman to try to get a more systematised approach to an open flow of information across the public service.

In this context, the commissioner noted that the Government has signed up to the Open Government Partnership. Under this international initiative, the governments of 70 countries have committed to becoming more open, accountable, and responsive to citizens. The SSC and the Chief Ombudsman lead work on meeting New Zealand’s obligations under the partnership.

**Compliance with the Official Information Act 1982**

Some of us expressed concern about the motivation behind some Government departments’ responses to requests under the Official Information Act (OIA). The commissioner said he could formally look into any particular situations, and take action if appropriate. He believed most public servants were doing their best to respond to OIA requests, but mistakes could happen. Depending on an agency’s size, it could also struggle to respond promptly to large volumes of requests.

The SSC said it is working with the Chief Ombudsman to provide some assurance about compliance with the OIA. They will begin to publish statistics and data, and will focus on a more proactive release of information.

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The SSC would like decisions of government agencies to be released proactively on a regular basis on their websites. It believes this would avoid some of the need for complaints to the Ombudsman under the Act. It aims to work toward a more consistent and better approach to official information across government.

**Kaikōura earthquake, November 2016**

We asked about the condition of government property following the Kaikōura earthquake on 14 November 2016.

The SSC noted that its role focused on ensuring business continuity for the State sector, while the Government Property Group (located within the Ministry of Business, Innovation and Employment) was responsible for government properties themselves.

We heard that most buildings performed well during the earthquake. There was considerable mess, as code-compliant buildings are designed to move around, but they are designed to minimise harm to people. After initial safety assessments by structural engineers, departmental chief executives had been responsible for ensuring that buildings were safe to work in. Each department has its own property expertise. The SSC had been in frequent contact with chief executives since the earthquake.

**The effect on State services in Wellington**

About 5,000 staff had been displaced from their normal office accommodation, out of the 32,000 State servants in the Wellington region. Staff based in Statistics House, Environment House, and Defence House were the most affected. Staff from these buildings had moved to temporary accommodation or were working remotely.

We heard that all staff from Statistics House and Environment House would be back in their buildings within weeks. However, assessments of Defence House were continuing, and the commission did not know when staff could return.

We understand that the building housing the National Institute of Water and Atmospheric Research (NIWA) was initially declared safe by a manager. A full engineer’s report was carried out only after staff raised safety concerns. The SSC said it made its expectations clear to public service chief executives early on that properly qualified structural engineers should do the assessments. The commissioner said he had asked the Public Service Association (PSA) and chief executives to raise any concerns with him directly.

**Applying lessons from each earthquake**

We are pleased to note that a full review is carried out after each earthquake to see what lessons can be learned. We heard that ICT services were returned to normal more quickly in November than after the Wellington earthquake of 2013. Government agencies now outsource the storage of their data to specialist providers that use secure facilities. This made accessing data easier.

We asked whether any contingency plans had changed since the earthquake in November. We were told that the Officials Committee for Domestic and External Security Coordination (ODESC) leads a programme of work focused on confirming the ability of the Wellington region to withstand and recover from a significant seismic event. Since November, central, local, and regional agencies, alongside the private sector, have focused on areas such as refreshing the Wellington Earthquake National Initial Response Plan, and ensuring that government continuity planning is up to date and robust.
Christchurch State services returning to the central business district

In Christchurch, public service departments have started moving back into the central business district (CBD) after the earthquake of 2011. We understood that this could entail broken-lease payments and higher rents for many agencies. We asked whether any extra costs would need to be met from within agencies’ own baselines.

The commissioner said he did not believe any agencies would be “out of pocket”. The Government Property Group (GPG) was managing the withdrawal from leases and the subleasing of buildings with the aim of coming out ahead overall. We were informed that there would be no penalty payments as no leases have been broken early.

Rental costs of the new buildings would be about 50 percent higher than the temporary rentals. However, the GPG has achieved favourable terms by consolidating negotiations through an all-of-government approach. Overall, having 15 government agencies move into four buildings would promote greater efficiencies and collaboration across government. We were informed that the new workplaces are designed to meet 100 percent of new building standards.
Appendix

Committee procedure

We met on 30 November 2016 and 22 March 2017 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)
Hon David Bennett
Paul Foster-Bell
Barry Coates
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


State Services Commission, Response to written questions, received 30 November 2016.

State Services Commission, Response to further written questions, received 8 February 2017.
2015/16 Annual review of the Auckland District Health Board, the Bay of Plenty District Health Board, the Counties Manukau District Health Board, the Nelson Marlborough District Health Board, the South Canterbury District Health Board, and the West Coast District Health Board

Report of the Health Committee

The Health Committee has conducted the annual reviews of the 2015/16 performance and current operations of the Auckland District Health Board, the Bay of Plenty District Health Board, the Counties Manukau District Health Board, the Nelson Marlborough District Health Board, the South Canterbury District Health Board, and the West Coast District Health Board and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
2015/16 Annual review of the Canterbury District Health Board

Report of the Health Committee

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Appendix 8
Canterbury District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Canterbury District Health Board and recommends that the House take note of its report.

Introduction

The Canterbury District Health Board (DHB) provides health and disability support services to a population of about 544,000 people. Its area covers Christchurch, Kaikōura in the north, Ashburton in the south, and the Chatham Islands in the east. It is the second-largest DHB in New Zealand by population and area.

The age profile in the area is similar to the national average. However, the DHB has the largest total population over the age of 75. It expects to continue to serve the largest percentage of older people for at least the next 15 years.

The DHB provides primary, secondary, and tertiary services to its district. It also provides specialised tertiary services to people from regions where these services are not available. These include eating disorders, brain injury rehabilitation, neonatal, neurology, and oncology services.

The DHB provides laboratory, endocrinology, paediatric oncology, and spinal services on a national or semi-national basis.

The DHB’s mission is to promote, enhance, and facilitate the well-being of the people of Canterbury.

Financial performance

In 2015/16, the DHB had total revenue of $1.606 billion and total expenses of $1.623 billion. After receiving deficit funding of $16.376 million from the Ministry of Health, it had a deficit of $473,000. It had budgeted to break even.

Earthquake repair programme

As part of his audit, the auditor performed a high-level review of the project overview and management processes of the earthquake repair programme.

The review recommended that the DHB clarify arrangements within the DHB and with the Ministry of Health, so the governance groups can perform effectively. The auditor has further work in this area planned for 2016/17.

Demand for mental health services

In 2015/16, there was a 39 percent increase in presentations to adult specialist mental health services. The DHB told us that, in the past year, it has been averaging about 85 patients per day for the adult inpatient mental health facility, which has 62 beds.

Although patients are managed in the facility during the day, the DHB shifts patients overnight to a range of locations because it does not have enough beds for them. This uses
a lot of staff resources. The DHB is particularly concerned about the effect on patients’ health.

International evidence shows that demand for mental health services after a disaster follows a similar pattern. The DHB expected to see a plateau for adults. This occurred last year, but the demand is now increasing again, which is unexpected based on the international evidence.

In 2015/16, there was a 61 percent increase in demand for child and youth mental health services. This is an extra 300 children per month. The DHB also provides counselling services to 116 schools.

The DHB expects demand for child and adolescent services to continue for the foreseeable future. It is experiencing increased demand for those who were in utero at the time of the earthquake and are now in their first few years of primary school. It is also seeing increased demand for 18 and 19-year-olds who were moving from primary school to secondary school at the time of the earthquake. Other social agencies, such as the Police and Justice, are also involved with the older group because of their behaviour.

The DHB believes that it has managed some of the increased demand with interventions, but the increase is significant. The challenge is not going to abate and it needs to work with other agencies to manage this.

**Psychosocial support after the Kaikōura earthquakes**

Under the Civil Defence and Emergency Management Order 2015, the Ministry of Health and DHBs assumed responsibility for coordinating psychosocial support after an emergency.

The DHB requested $12.4 million from the Government for the psychosocial response to the Kaikōura earthquake. The Government provided $3.7 million in funding, which included $2 million to pay the balance of the new Kaikōura health centre. Prior to the earthquake, the Kaikōura community had agreed to fundraise $3.4 million towards the centre.  

We asked the DHB whether its request for $12.4 million was unreasonable, given the difference between the amounts requested and received. The DHB considered that the amount it sought was reasonable. It believes that the fact that it asked for that particular amount for a psychosocial approach by multiple agencies was “lost in translation”. The other agencies included territorial local authorities, the Red Cross, Ngāi Tahu, the Police, and the Ministry of Social Development.

The DHB was granted an additional $840,000 to the end of 2017 but it indicated that it had already spent about $2 million at the time of its hearing providing support after the Kaikōura earthquake. It told us that it is difficult to predict how much it will spend because it can take time for a range of problems to emerge. The DHB expects this to become more evident in the next 12 to 18 months. We also note that an additional $20 million was provided in the last financial year for a four-year period to provide psychosocial support for the whole Canterbury DHB community.

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Although it does not have a budget of total costs, the DHB expects them to be proportionate to the Canterbury earthquake.

**Princess Margaret Hospital**

**Business case for the services at Princess Margaret Hospital**

Princess Margaret Hospital provides specialist mental health services. This includes the eating disorders service, the child and youth inpatient unit, the mothers and babies unit, and the Seager Clinic. The Seager Clinic is an inpatient rehabilitation unit that offers a recovery-based programme to help people with mental health issues to live in the community.

The DHB is working through the indicative business case process to move these services from Princess Margaret Hospital. The business case is at the clinical review stage. It will then go to the Capital Investment Committee.

The DHB told us that it will be a minimum of three years before services are moved from the site. This is because any new facility will need to be built. The DHB will retain the eating disorders service, child and adolescent service, and mothers and babies service on the current site in the meantime.

The business case includes a range of options. The DHB told us that a facility on the Hillmorton site appears to be the option that is most capital cost-effective and flexible for the future.

**Clinical services at Princess Margaret Hospital**

We are concerned about the lack of clinical support at Princess Margaret Hospital. We asked about the risks and how long they will continue. The DHB told us that the hospital treats some of the community’s people who are the most at-risk and have the most complex problems and that it is desirable not to have these patients on this site. The DHB is spending $2.5 million per year to manage “a very unsatisfactory situation”.

The DHB told us that the clinical risk is that there is minimal nursing on the site. This is a particular concern for the eating disorders service because its patients can be medically compromised.

The DHB is also concerned about the physical condition of the building. It said that there are cracks in the building and that parts of the building are held up by planks. This is demoralising for patients and staff.

The DHB reiterated that the earliest time frame for the services to move from Princess Margaret Hospital is three years.

**PwC review**

The Ministry of Health contracted PwC to do a second-stage financial review of the DHB. This followed the stage one review, released in late 2015, that focused on the reasons for the DHB’s current and future deficits.

The second-stage review focused on validating the DHB’s current deficit forecasts and re-validating its activity and implementation plans to return the DHB to a break-even financial position.
The review found that the DHB’s deficit will continue to increase from the projected $38.5 million in 2016/17 to more than $60 million in 2020/21. Capital charge and depreciation on the DHB’s capital programmes are key drivers for the deficit.

Among other options to improve the DHB’s financial sustainability, the review outlined the effect of reducing the depreciation rate, leasing some facilities rather than owning them, and reviewing the future facilities building plan.

The DHB told us that it believes that some data has been omitted from the PwC calculations that, if included, would change the debt levels. It recently sent letters to the Ministry of Health and the Treasury requesting a meeting to discuss this. We will follow up on the progress at our next review.

**Elective surgery**

We asked how the DHB was dealing with the increased demand for elective surgeries, such as hip and knee replacements, that come from having an ageing population.

The DHB told us that, out of all the DHBs, it and Waitemata DHB provide the most elective surgeries. Except for the earthquake year, it has continued to meet its elective surgery targets. This is despite working with seven fewer operating theatres than it needs.

The DHB has met its targets through a range of initiatives. The DHB now treats more complex cases in primary care. In the past year, nearly 34,000 people who would have been admitted to hospital in other DHB regions received acute care in the community.

The DHB’s acute medical admission rate is lower than the national average. If the DHB were operating at the national average, it would have had 19,000 more hospital admissions. This would have required 140 more acute hospital beds.

The DHB works with all of the private facilities in Christchurch. This includes constructing a shell theatre in Southern Cross Hospital. It uses about five operating theatres in the private sector each week.

Although there is physical capacity to provide the services, the same workforce, including surgeons, anaesthetists, and nurses, is used for the public and private sectors. This makes it challenging to be fully staffed because it is operating at capacity.

We were pleased to hear that, by the end of 2018, the DHB will have another seven theatres. This will have it functioning at near capacity. We commend the DHB for all the work that it has done to maintain services since the earthquake.

We asked to what extent the DHB is a “victim of its success”, in that people are disregarding the community need because the DHB is managing so well. The DHB told us that it passed its full capacity constraints more than two years ago. It agreed that the DHB’s ability to keep on delivering can be confused with being able to do so easily.

The DHB acknowledged the work of its staff and efforts from hospitals, non-governmental organisations, primary care, and the voluntary sector.

**Burwood Hospital upgrade**

Before the earthquakes, the DHB had developed a plan to upgrade Christchurch and Burwood Hospitals. This was because the hospitals were operating at full capacity. Damage caused by the earthquakes meant that the DHB needed to redevelop the facilities more urgently.
In August 2016, the new Burwood Hospital was transferred to the DHB under the Health Sector (Transfers) Act. The Older Person’s Health Services were transferred from Princess Margaret Hospital in June 2016.

The brand-new facility has 230 beds. It is the centre for health of older people, psycho-geriatric, orthopaedic, and spinal rehabilitation. The DHB told us that it worked with the community, clinicians, and health planners to design the services.

The DHB told us that one of its major goals was to achieve a significant reduction in the number of falls in the hospital in the first six months of opening. We were pleased to hear that falls have reduced by 26 percent in the first six months of operation. The DHB attributes this to the human-centred design of the facility that reduces the opportunity for falls.

Innovation

The DHB has used innovation to develop its leadership. The Accelerate programme takes more than 1,000 medical staff and managers out of the primary care and hospital sectors and immerses them in other sectors and industries where they learn about organisational theories, such as system thinking, lean thinking, and chaos theory. When they return to the health system, they are given major projects to work on.

The DHB also has a large industrial warehouse where the community and clinical teams spend weekends mocking up and delivering different scenarios.

Organisational resilience

Staff wellness

Staff at the DHB have experienced significant pressure both at work and in their home life as a result of the earthquakes. By the end of 2018, every clinical area in Christchurch Hospital will have moved an average of four times.

Forty-four buildings were demolished after the earthquake, so staff are dealing with construction work being done in clinical areas while they work. This is combined with the disruption to their lives outside work, such as home repairs, insurance challenges, and damaged infrastructure.

Despite this pressure, the DHB has maintained high levels of staff engagement. The results of a 2016 Staff Wellbeing Survey, which had 4,042 responses, showed a highly engaged workforce. Almost 90 percent of the respondents believe that they contribute to the success of the Canterbury health system. The DHB told us that this engagement is part of what has helped it through the past six years.

However, the DHB told us that the danger with a highly engaged workforce is that, if they lose engagement, it happens quickly. The DHB is using the results of the well-being survey to develop a Staff Wellbeing Strategy. We look forward to hearing about the progress of this strategy.

Physical assaults on staff

A recent Canterbury DHB health and safety report recorded more than 750 instances in 2016 of staff having been assaulted by patients. We asked what the DHB was doing to protect its staff.
The DHB said that about 200 of the assaults were in mental health and the remainder in emergency departments and the rest of the health sector. It has changed its security processes in hospitals.

In 2009, there were more than 2,000 assaults throughout the Canterbury hospital system. There has been a reduction each year since then to about 755 in 2016. The DHB acknowledged that this number of assaults is still unacceptable.

We agree that this is unacceptable and encourage the DHB to look at further ways to reduce assaults on staff.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of the Canterbury District Health Board. We heard evidence from the Canterbury District Health Board 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
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Canterbury District Health Board, Responses to questions, received 28 February 2017.
Canterbury District Health Board, Responses to post-hearing questions, received 20 March 2017.
2015/16 Annual review of the Capital and Coast District Health Board

Report of the Health Committee

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Appendix 6
Capital and Coast District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Capital and Coast District Health Board and recommends that the House take note of its report.

Introduction

The Capital and Coast District Health Board (DHB) serves a population of about 300,000 people. It covers the Wellington City and Porirua City regions, and part of the Kapiti Coast district. The DHB is the seventh largest by population.

The DHB’s population is younger than the national average. Almost one third of its population is aged between 25 and 44. The district has a lower than average rate of Māori at 10 percent and slightly higher than average Pacific and Asian populations at 7 percent and 11 percent respectively. There is a high proportion of people in the least-deprived section of the population and lower than average rates in the most-deprived compared to the national population.

The DHB provides specialist tertiary services for more than 800,000 people in the upper South and lower North Islands. These services include cardiology and cardiothoracic surgery, neurosurgery, vascular surgery, renal medicine and transplant, genetics, oncology, paediatric surgery, neonatal intensive care, obstetrics, endocrinology, orthopaedics, urology, and specialised forensic services.

Financial performance

In 2015/16, the DHB’s total income was $1.024 billion and its total expenditure was $1.036 billion. This resulted in a deficit of $11.92 million, against a budgeted surplus of $1.4 million.

The Office of the Auditor-General recommended that the DHB’s management control environment “needs improvement” because it had not fully addressed deficiencies identified in 2014/15. Improvements are needed to its approach to asset management planning, risk management, and procurement and contract management.

The DHB had made progress in recent years to reduce the deficit from $66 million in 2008/09 to $3.98 million in 2014/15. However, this was not maintained in 2015/16. The DHB’s management has told the board that it expects deterioration in its finances in the current year. With five months of the year remaining, the forecasted deficit is $17.9 million.

We heard that there is a range of reasons for the deterioration. These include increased demand for hospital and community services, and increased personnel costs. The board is working with management to understand the reasons for the unfavourable financial position and identify ways to address them.

Funder and provider arm

The DHB told us that its deficit is in the finances of its provider arm. This is the part of the DHB responsible for running public hospitals and other related public health services.
The DHB told us that its work on changes to the provider arm has been to achieve shorter, safer health journeys for its patients. It is proud of what it has achieved because it knows that patients, particularly the elderly, decondition at a rate of 10 percent a day. Deconditioning is the loss of muscle tone and endurance resulting from physical inactivity. This work has improved clinical outcomes and compares well with results throughout Australasia. The DHB has not reduced funding to primary health organisations because of the need to provide more funding to its provider arm. It has continued to increase funding into primary care each year.

Health Care Home Initiative

The Health Care Home Initiative is a model aimed at providing better preventative and urgent care for people in the community, thus preventing unnecessary trips to hospital. This ensures that people receive hospital care only for high and complex needs. The initiative, jointly funded by DHBs and primary health organisations, gives people a wider range of health services at their general practice clinic.

Nine practices have signed up to the initiative, covering about 59,000 patients in the DHB’s region. A further eight or nine practices will sign up soon. This will mean that a total of 114,000 patients will be covered, about 39 percent of the DHB’s population.

The model uses a range of services. Under general practitioner (GP) triage, patients will speak to their GP, rather than a nurse or receptionist, who will assess how urgently they need treatment. Patient portals allow a patient to log on to their portal at home and talk to their clinicians by email or through the internet. The initiative also has a range of extended services, such as acute care for cellulitis, deep vein thrombosis, and urology procedures.

Clinicians have responded positively, and those who have been involved have found it “transformational”. We are pleased to see how much is being done in the community and encourage the extension of both the initiative and the range of services provided.

Care of Ashley Peacock

Ashley Peacock is an autistic man who is a compulsory patient under the Mental Health Act 1992. The Chief Ombudsman and National Intellectual Disability Care Agency (NIDCA) have both been critical of his living situation. Media reports have stated that Mr Peacock has been held in seclusion for the past five years.1

The DHB notes that media attention has focused on Mr Peacock being held in isolation and seclusion. It disputes this, as the statistics compiled on the use of seclusion show patients were in seclusion or isolation for about 48 hours during the last six months.

We asked why the DHB disagreed with the NIDCA review about a pathway for Mr Peacock’s transition back into the community. The DHB told us that it did not disagree with the NIDCA review and that transitioning a patient back into the community is its goal for every client. It said that Mr Peacock has high and complex needs and that the issue is about managing risk and ensuring that he, the public, and staff working with him are safe.

The DHB told us that it costs about $750,000 per year to look after Mr Peacock. It receives about $180,000 from the Tairāwhiti DHB. We asked what would happen if the DHB received another similar case. The DHB told us that the cost of providing tertiary care for

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patients with high and complex needs is a challenge because funding is based on average cost rather than the outlier.

**Integrated community and hospital laboratory service**

In November 2015, the DHB began an integrated community and hospital laboratory service with Hutt Valley and Wairarapa DHBs. A new “state of the art” facility has been set up at Wellington Regional Hospital, and the laboratory equipment at Kenepuru Hospital has been upgraded. The service has resulted in significant savings and improved turnaround times. Staff can access the laboratory results regardless of where they have been done.

The DHB told us that the service demonstrates the benefits of working collaboratively with other DHBs. We encourage the DHB to investigate other areas where it could use the same approach.

**Leaking copper pipes**

The Wellington Regional Hospital’s domestic hot and cold water systems are failing because corrosion in the copper pipes is causing leaks throughout the building. This was discovered in the first half of 2016.

The leaks are appearing at a rate of between zero and five per week. Although this is not directly affecting the provision of services, it is inconvenient and stretching maintenance services. The DHB has started making temporary repairs to the affected areas.

The board has initiated legal proceedings against the building company, the copper pipe manufacturer, and the building designer to cover the costs of repairs. We hope that this issue is remedied quickly.

**Funding for DHBs**

**Population-Based Funding Formula**

The Population-Based Funding Formula allocates funding to DHBs based on their populations. Adjustments are made based on the population’s age, ethnicity, gender, levels of social deprivation, unmet need, rurality, and number of overseas visitors and refugees. The DHB receives 89 cents in the dollar compared with the average DHB because its population is younger and less diverse than other populations.

We asked what effect this had on the DHB’s deficit, noting that people of every age use services such as emergency departments and intensive care units. The DHB told us that growing demand affects its financial results.

However, the DHB serves a population that has lower levels of deprivation than most other DHBs and the DHB does not provide rural services. The DHB does its best to live within its means with the funding provided.

**Tertiary adjuster**

DHBs that provide tertiary services receive compensation for the additional costs of providing more specialised care. This is known as the tertiary adjuster and is not part of the Population-Based Funding Formula.

Although the DHB does not have a large rural population, it provides tertiary services for the upper South and lower North Islands. We asked whether the tertiary adjuster was falling behind the pressures the DHB is facing.
The DHB told us that it is considering sharing the cost of delivering high and complex care with other DHBs. However, it acknowledged that there are additional costs associated with being a teaching hospital and the training and research that accompanies that. It considers that questions about the adequacy of the tertiary adjuster are best directed at the Ministry of Health.

**Upgrade of Purehurehu**

Purehurehu is a central region forensic mental health facility on the Kenepuru Hospital grounds. The board minutes note that the facility meets neither health and safety nor fire regulations. The building, which opened in 1992, is no longer fit for purpose because the delivery of mental health services has changed significantly since then.

The building is being refurbished and rebuilt as part of the Capital and Coast capital programme. The section that is being rebuilt is being built separately beside the facility so that the facility can continue to operate. The two sections will then be connected. The DHB told us that, although the building currently meets fire regulations, the regulations are more stringent when a building is upgraded.

We asked whether the Ministry of Health was providing any funding because the building provides a regional service. The DHB told us that the ministry provides funding for the facility and that the cost of capital upgrades is reflected in the funding. However, the ministry does not provide funding for maintenance and rebuild costs. The DHB has prioritised the rebuild money within its 2016/17 capital plan.
Appendix

Committee procedure
We met on 8 February and 15 March 2017 to consider the annual review of the Capital and Coast District Health Board. We heard evidence from the Capital and Coast District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Capital and Coast District Health Board, Responses to written questions, received 30 January 2017.

Capital and Coast District Health Board, Post-hearing responses, received 10 March 2017.

Office of the Auditor-General, Briefing on the Capital and Coast District Health Board, dated 8 February 2017.
2015/16 Annual review of the Hawke's Bay District Health Board, the MidCentral District Health Board, and the Wairarapa District Health Board

Report of the Health Committee

The Health Committee has conducted the annual reviews of the 2015/16 performance and current operations of the Hawke’s Bay District Health Board, the MidCentral District Health Board, and the Wairarapa District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Hutt Valley District Health Board, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
2015/16 Annual review of the Health and Disability Commissioner

Report of the Health Committee

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Health and Disability Commissioner

Recommendation

The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Health and Disability Commissioner and recommends that the House take note of its report.

Introduction

The Health and Disability Commissioner (HDC) is an independent Crown entity established under the Health and Disability Commissioner Act 1994.

The HDC’s purpose is to promote and protect the rights of health and disability services consumers, as set out in the Code of Health and Disability Services Consumers’ Rights. Its three main strategic objectives are to:

- resolve complaints
- improve quality in the health and disability sectors
- hold providers to account.

In the past few years, the HDC has published several longitudinal reports to support improvements in the sector. This used data that the HDC has collected over time.

The HDC contracts the National Advocacy Trust to provide the Nationwide Health and Disability Advocacy Service. The service deals with lower-risk complaints. It also visits certified aged care facilities and residential disability service providers to ensure that vulnerable consumers have access to its service.

Financial performance

In 2015/16, the HDC’s total revenue was $11.916 million and its total expenses were $11.589 million. This resulted in a surplus of $326,000. Ninety-eight percent of the HDC’s income comes from Vote Health.

Surgical mesh

In 2016, we presented a report to the House on Petition 2011/102 of Carmel Berry and Charlotte Korte. The petition requested that the House inquire into the use of surgical mesh in New Zealand.

We asked why the HDC did not carry out an inquiry into the effects of surgical mesh. The HDC acknowledged that surgical mesh is an important issue that it takes very seriously. The commissioner met with the two petitioners and some other advocates, and found their stories very compelling.

The HDC did a lot of work on surgical mesh about 18 months ago. It wrote to the providers and the regulators asking how the relevant colleges were managing the current knowledge about mesh and its risks. It also asked how patients were informed about the risks of surgical mesh.
The HDC received assurances from the relevant entities about this at the time. It did not consider that an inquiry was necessary, but it continues to monitor any complaints.

We are pleased that the HDC is monitoring this issue but are concerned about the large group of women who had surgical mesh implanted and cannot get it removed in New Zealand.

The commissioner told us that the lack of expertise in removing surgical mesh in New Zealand is worrying. He will keep the issue under review but has no plans for an inquiry.

**Eye treatment**

We asked how many complaints the commissioner had received about eye treatment in recent years, noting that some people have been losing their sight because of delays in ophthalmology services. The HDC told us that in 2015/16 it received seven complaints, and four complaints in 2014/15. It has received seven for the 2016/17 year to date.

The HDC told us that it is concerned about the delays in patients receiving ophthalmology services. The DHBs are responsible for treating patients promptly, prioritising appropriately, and informing patients. However, the commissioner can notify matters to the Ministry of Health where resourcing issues are involved. It did this for ophthalmology services at Southern DHB in January 2016 and Counties Manukau DHB in September 2016.

**Role of the mental health commissioner**

The HDC has been responsible for monitoring and advocating systemic improvements in mental health and addiction services since 2012. It took over these responsibilities from the Mental Health Commission when it was disestablished in 2012.

In 2015/16, a new mental health commissioner was appointed. Some of us wondered whether, with the disestablishment of the Mental Health Commission, people may be unaware that there is a dedicated mental health commissioner within the commission who deals with mental health consumers’ complaints. The mental health commissioner agreed that it is very important that the public knows about his role and what he can do.

Unlike the Mental Health Commission, which had more of a monitoring and advisory role, the mental health commissioner deals directly with complaints and makes decisions and recommendations about services. The HDC deals with about 200 complaints about mental health and addictions per year. We were pleased to hear that consumer groups find this a positive step.

The mental health commissioner has been in the role for about 12 months and expects the role to develop further in the next 12 months. He regularly visits district health boards (DHBs), consumer groups, and providers, and hopes to continue with this engagement.

The HDC is examining the themes and trends that come from complaints. The mental health commissioner sees this as moving towards public reporting about the state of mental health services generally.

**Residential aged care complaints**

The HDC report published in September 2016, which examined five years of data on residential aged care complaints, is an important achievement.
The report showed that the number of complaints received about residential aged care remains fairly static. The HDC told us that there are about 100 complaints per year. We asked whether this was because of improvements in the sector or because the users of these services were less able to make complaints. The HDC told us that complaints can be made to and managed by other organisations. These include DHBs, the residential health care facilities themselves, and HealthCERT (the regulatory body). The advocacy service also makes at least one visit per year to residential aged care facilities, with two-thirds of facilities receiving at least two visits each year.

The HDC told us that the complaints it receives are often about communication with consumers and family members, particularly about the deterioration of an elderly person’s condition. More elderly people are being supported to live in their homes longer, so the people in aged care facilities tend to be more frail and vulnerable.

Another feature of the complaints is a lack of communication between the aged care facility and primary or secondary care. The HDC told us that it usually informs the DHB and HealthCERT at the end of the complaint process. It believes that it is beneficial to ensure both parties are aware of any recommendations and the undertakings that the aged care organisation has made to remedy any issues. This also enables HealthCERT to monitor the progress of implementing any recommendations through its certification audit of the aged care facility.

**Effectiveness of education**

In 2015/16, the HDC spent $504,000 on education. The HDC has reported increasing numbers of complaints since 2010/11. We asked how the HDC monitors the effectiveness of the education it provides, given that the number of complaints could be increasing because its education is working well.

The HDC told us that its education programme has focused on communicating with three areas in the past few years. The areas are:

- primary and secondary care
- the provider sector to ensure that it is familiar with the complaints process and reminding it about the Code of Health and Disability Services Consumers’ Rights
- the public through publicity from cases and providing pamphlets and posters to every provider.

The HDC told us that the success of its education programme is difficult to measure because a provider never comes back with the same problem twice. It does not have data on the number of complaints received by primary health organisations, general practitioners, and DHBs so it is unsure if these groups are also experiencing increases in the number of complaints. The HDC said that providers’ awareness of the code and the HDC’s expectations appear to be improving.

**Identifiable information**

We asked whether the HDC considered whether it needed to address the tension between health providers’ need to gather information and the ability to provide assurance about how information may or may not be used.
The HDC told us that information matters are primarily dealt with through the Privacy Commissioner. The HDC would focus on this only to the extent that information affects the way people get treated or get access to treatment.

**Consent in research**

We were interested to hear that the HDC will soon be consulting on patient consent in research. It will ask whether there are any circumstances where research can occur without a patient’s consent, such as in emergency settings. We will follow the outcome of this with interest.
Committee procedure

We met on 15 February and 22 March 2017 to consider the annual review of the Health and Disability Commissioner. We heard evidence from the Health and Disability Commissioner and received advice from the Office of the Auditor-General.

Committee members

Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Health and Disability Commissioner, Responses to written questions, received 31 January 2017.

Health and Disability Commissioner, Responses to post-hearing questions, received 10 March 2017.

2015/16 Annual review of the Health Promotion Agency, and the Health Quality and Safety Commission

Report of the Health Committee

The Health Committee has conducted the annual reviews of the 2015/16 performance and current operations of the Health Promotion Agency, and the Health Quality and Safety Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Health Research Council of New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
2015/16 Annual review of the Lakes District Health Board, the Tairawhiti District Health Board, the Taranaki District Health Board, and the Whanganui District Health Board

Report of the Health Committee

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Lakes District Health Board, Tairawhiti District Health Board, Taranaki District Health Board, and Whanganui District Health Board

Recommendation
The Health Committee has conducted the annual reviews of the 2015/16 performance and current operations of Lakes District Health Board, Tairawhiti District Health Board, Taranaki District Health Board, and Whanganui District Health Board, and recommends that the House take note of its report.

Introduction
We held a joint hearing with Lakes District Health Board (DHB), Tairawhiti DHB, Taranaki DHB, and Whanganui DHB on 8 March 2017. We were interested in the challenges faced by smaller, regional DHBs. Each DHB gave an individual overview before we questioned them as a group.

Financial performance of each DHB

Lakes DHB
Lakes DHB serves a population of about 100,000, covering 9,570 square kilometres. It provides health and disability support services to the Rotorua, Taupo, Mangakino, and Turangi districts.

In 2015/16, the DHB’s total revenue was $337.174 million and its total expenses were $342.700 million. This resulted in a deficit of $5.315 million, against a budgeted surplus of $619,000. The main reasons for the deficit were the cost of locums to cover vacancies and leave, and a higher-than-expected demand for hospital services, which were primarily acute cases.

Taranaki DHB
Taranaki DHB serves a population of about 118,000 people, covering 7,000 square kilometres. It includes New Plymouth and the towns of Stratford, Hawera, and Opunake.

In 2015/16, the DHB’s total revenue was $355.448 million and its total expenses were $359.233 million. This resulted in a deficit of $3.669 million, against a budgeted surplus of $737,000. The primary reasons for the deficit were acute volumes being 14 percent over budget and the unbudgeted cost of locums to cover vacancies, long-term sick leave, annual leave, and sabbaticals.

Tairawhiti DHB
Tairawhiti DHB stretches from Hicks Bay in the north to Gisborne in the south. It covers an area of 8,351 square kilometres. The DHB’s total population in the 2006 census was 44,499.

In 2015, the DHB changed its approach to Māori health. This was because life expectancy for Māori in the district was seven years less than for non-Māori. The DHB recognised that
it needed to do something different to get better results. The DHB rebranded itself as Hauora Tairāwhiti.

The DHB is working closely with other agencies, including the Ministry of Health, the Ministry of Social Development, and the Police, to work with families to improve outcomes for Māori people from a younger age.

In 2015/16, the DHB’s total revenue was $167.368 million and its total expenses were $174.559 million. This resulted in a deficit of $6.657 million, against a budgeted surplus of $316,000. The reason for the deficit was higher-than-expected expenditure on personnel.

**Whanganui DHB**

Whanganui DHB serves a population of 62,210. It covers people who live in the Whanganui and Rangitikei Territorial Authority areas, as well as parts of the Ruapehu Territorial Authority. It covers a total land area of 9,742 square kilometres. The two main centres are Whanganui city, with a population of about 40,000, and Marton, with a population of about 4,700.

In 2015/16, the DHB’s total revenue was $236.886 million and its total expenses were $237.543 million. This resulted in a deficit of $567,000, against a budget of breaking even. The DHB reported that the deficit was driven by unbudgeted increases in Multi Employer Collective Agreements, increased elective volumes, and higher-than-budgeted costs for locums.

**Attracting workforce to regional areas**

**Taranaki DHB**

Taranaki DHB acknowledged that recruitment in provincial areas can be a struggle. However, it does reasonably well as a small DHB because people like the mountain and the sea. It said that its environment attracts people and that its culture seems to hold people. The DHB often identifies people during their training and encourages them to come back when they graduate.

Health Workforce New Zealand was established in 2009 to provide a sector-wide approach to New Zealand’s workforce challenges. Some years ago, a shortage of nursing graduates was identified.

The DHB said that that the workforce strategies are starting to see results. In recent years, more nurses have been trained. However, the older workforce is not moving on quite as quickly as new graduates are qualifying. This creates a tension at the end of each year to employ these new graduates because there is a shortage of nursing jobs.

The DHB has several staff who were trained overseas. These people primarily work in obstetrics and psychiatry because it is hard to recruit New Zealand-trained staff in these areas. Most of its senior medical officers (SMOs) are New Zealanders or were trained in the United Kingdom.

**Tairawhiti DHB**

Tairawhiti DHB told us that a “fair proportion” of its senior medical staff trained overseas. Although it values the expertise and the views that people trained overseas can bring, the DHB would like to increase the number of New Zealand-trained people on its staff. It is now starting to see New Zealand-trained people coming to work at the DHB.
The DHB has worked on a professional education programme with Otago University for several years. This brings nursing, pharmacy, and medical students to Tairawhiti for a block course in their final year. The group works together in a “trans-disciplinary way”.

The programme gives the cohort a better understanding about working in areas with high proportions of Māori and in smaller rural communities. The DHB finds that, when people graduate, they tend to come back or go to other rural communities to work.

We were pleased to hear that the community plays an important role in welcoming the partners and families of the DHB’s staff.

Whanganui DHB

Whanganui DHB told us that a large percentage of its staff is very stable. However, a portion turns over more rapidly. This includes the SMOs.

Several international medical graduates work in the DHB. In recent years, recruitment in the international market has improved because of difficulties in the northern hemisphere. The DHB no longer has the difficulties recruiting senior doctors that it used to have. It also has a lot more New Zealand-trained staff coming through.

In the area of nursing, ageing staff is an issue. The DHB is considering ways to support nurses who develop degenerative conditions as they age because of the physicality of the role.

The DHB supports Tairawhiti DHB’s comments about the importance of welcoming the families of its staff. Many senior doctors who move to Whanganui have partners who would like professional jobs. This can be a problem because there are often not suitable jobs available for them.

In recent years, Whanganui has done well out of Auckland’s housing problems. It said that it has had some excellent staff move from Auckland to Whanganui.

Lakes DHB

Lakes DHB told us that its turnover is quite low, particularly in nursing. It does not have problems recruiting doctors, particularly younger doctors who move to Lakes DHB for the outdoor lifestyle. There are increasing numbers of New Zealand senior doctors, and its use of locums is decreasing. The DHB has problems recruiting to psychiatry and gynaecology roles.

The DHB has started a programme which specialises in medicine for rural hospitals in places such as Taupo. Although it is getting established, it has managed to attract some very good staff.

Providing access for marginalised and deprived communities

Tairawhiti DHB

Tairawhiti DHB’s dispersed population creates challenges for providing services, both physically and in the way people need to access them.

Tairawhiti DHB’s philosophy is to find more effective ways of working for people and tailoring services that work for them. The DHB is working with iwi and government agencies to do so.
Turanga Health is a Māori health provider and general practice based in Gisborne. The DHB has provided it with an IT-compatible mobile clinic. It travels to workplaces, such as LeaderBrand, a horticultural business, and provides health checks and assessments to workers. This service provides huge benefits to people who may not have the time to visit their GP.

The E Tipu E Rea programme supports the 20 percent of the most vulnerable children in the district. This is in addition to the Well Child services. The programme works with iwi providers to target families and provide more support for children from conception to five years.

The DHB has noticed a reduction in children being admitted to hospitals for ambulatory sensitive hospitalisations. These are hospital admissions that could have been prevented if people had gone to primary care earlier.

The E Tipu E Rea programme’s goal is to have the “happiest, healthiest children in the world by age five”. We commend the DHB for this work.

**Whanganui DHB**

The Whanganui DHB has “Hard to Reach” strategies for a range of services. It is now using the strategies that it used to improve immunisation rates to improve child oral health in its area.

Although the DHB has high rates of enrolments, this does not mean that children will go to dental appointments. This is a problem because Whanganui water is not fluoridated. The DHB sees the strategies as an investment because it sees benefit down the track.

**Lakes DHB**

Lakes DHB told us that many children and Māori do not attend clinics. The DHB has a range of approaches, including texting, calling twice before an appointment, and having nannies collect children for their appointments.

The DHB said that the solution needs multiple approaches and that one size does not fit all.

**District Health Board elections**

DHB elections were held in 2016. We asked how the DHBs dealt with boards that regularly change.

**Lakes DHB**

The Lakes DHB has four appointed and seven elected members. The DHB had about 28 candidates for the election. The high number of candidates can be a challenge for the public in deciding who to vote for. The DHB addressed this by informing the public before the election about the skills that board members need, including governance, an understanding of health issues, and community connections.

The chair told us that the board needs to ensure that it does not lose momentum after an election, because the community, the Minister, and Parliament have expectations. The DHB told us that it is important to have an induction process to get people up to speed quickly.

The DHB had seven new members after the election, but it is fortunate that some of them have strong backgrounds in health.
Tairawhiti DHB

Tairawhiti DHB has seven elected members. Four of the members are women, and the majority are Māori elected members. The members have a high profile in the community and a broad understanding of issues. The DHB told us that board meetings after an election can be slightly longer as new members find their footing.

The DHB allows committees under the delegation of the board to have full powers (contracts of up to $5 million, purchase of hardware up to $1.3 million). This helps committee members feel more engaged.

Whanganui DHB

Whanganui DHB’s chair believes that it is healthy to have change. The DHB has five new members. Although people often come in with a community perspective that may not always be positive, when they see the complexity of the role, they can take that perspective back to the community.

The DHB told us that people coming on to a committee with a single issue can be a risk. However, it finds that people who come in on a single issue get drawn into the interesting nature of health.

Mental health

New Zealand Mental Health and Addictions KPI programme

The New Zealand Mental Health and Addictions KPI programme is an initiative led by providers. It is designed to improve performance throughout the mental health and addictions sector.

Most DHBs are not achieving the programme’s target range in at least some areas. The targets that are most commonly not achieved are those relating to pre-admission community care, post-discharge community care, and 28-day readmission rate. We note that the pressure on mental health services in DHBs and in the community is similar throughout New Zealand.

We asked why the rates in these areas were quite a bit worse for Lakes DHB than for the other DHBs. We understand that some of that is because of how the data was supplied but also note that the DHB’s readmission rates are much higher than other DHBs. We asked how the DHB is addressing the reporting of the data and about any other problems, noting the DHB’s high suicide rates.

The DHB told us that it has changed how it collects the data, resulting in improved figures. The DHB is concerned by the readmission rates and suicide rates. It is also concerned about people presenting with a combination of drug and alcohol issues and mental health issues. It said that its mental health services are having problems coping with the volumes. The chief executive said that it is a common problem for all DHBs, particularly the exacerbation of mental health problems by drugs and alcohol. The DHB said that this is more common in areas of high deprivation.

The DHB told us that there is a disproportionate number of youth suicides in the region. In Reparoa, one youth suicide was followed by three or four suicides. The DHB established a community liaison group to work closely with the community to try to prevent what are known as “copycat” suicides.
Provision of resources for mental health services

We asked whether the health budget was providing adequate resources to deal with the increased demand for mental health services, including more holistic solutions and the involvement of other community groups and government agencies.

Lakes DHB

Lakes DHB is concerned about the complexity of dealing with people with mental health and drug and alcohol issues, and about patients ending up in police cells rather than receiving medical treatment. Many patients are not enrolled with any mental health services. The DHB said that it needs to work closely with the Police to appropriately support these people.

The DHB told us that it can choose how it uses its resources. It does not believe that it should wait for additional funding from the Ministry of Health because it can divert funding within the DHB when necessary.

Taranaki DHB

Taranaki DHB is concerned that more youth in the region are experiencing mental health problems. The psychiatry team recently told the board that it appears that youth are less resilient.

The DHB asked whether the New Zealand education curriculum is keeping pace with some of the issues that youth are dealing with. The DHB believes that a good resilience programme, in collaboration with the Ministry of Education, that teaches coping tools would help.

The DHB considers economic development important in rural areas. It told us that, when the rural sector experiences downturns—for example, when the dairy payment drops—the rest of the community is affected. The DHB told us that rural trusts collaborate with the community to ensure that they are adequately supported.

Whanganui DHB

Whanganui DHB has recently focused on peer-support programmes. It has seen success with a peer-support programme in Marton. The DHB considers this programme to be much more cost-effective than using highly qualified professionals.

The DHB still has a high suicide rate, particularly in young to middle-aged men. It has a forensic mental health unit and is getting some good results from a resilience- and strength-based approach.

Tairawhiti DHB

Tairawhiti DHB is aware that some factors within iwi and family affect demand for mental health services. It believes that the E Tipu E Rea programme, which aims to have the happiest, healthiest children by the age of five, sets people up for a healthy life.

The DHB is also looking at other preventative measures to reduce the demand for services.

Population-Based Funding Formula

The Population-Based Funding Formula is a tool used to allocate DHB funding based on the needs of each DHB’s population. The formula considers a DHB’s population, along with the age, socio-economic status, ethnicity, and gender of its population.
The formula makes adjustments to account for the diseconomies of scale of providing services in rural areas, unmet need, and providing services to overseas visitors and new refugees. The unmet need adjustment targets funding at populations that have difficulty accessing health services. The target groups are people living in areas of high deprivation, Māori, and Pacific people.

In our annual review hearings of other DHBs, we have heard that DHBs often have problems ensuring that their population data is accurate. We asked each DHB how, or whether, they thought the formula could be improved.

**Lakes DHB**

The population data for the formula is based on the New Zealand Census. Lakes DHB told us that it has a “notoriously low level of registration for a census”. It considers that enrolments in primary health care would be a better way of obtaining population figures.

**Whanganui DHB**

The chief executive of Whanganui DHB said that she is a “passionate supporter” of the formula, having looked at studies on funding models in other jurisdictions. She believes that the formula needs to be refined but considers it the best of the available models.

The DHB acknowledged that the smaller regions benefit from the “smoothing” that the Ministry of Health does to account for smaller populations. However, it said that this is balanced by the costs of having to maintain a secondary 24-hour service in the region, which is expensive.

**Taranaki DHB**

Taranaki DHB considers the formula to be reasonably fair but thought it could do with some “tweaking”. The 2011 census was delayed because of the Canterbury earthquake. However, when it was done in 2013, the DHB’s population had increased by 8,000 people. This had not been anticipated, and services had been provided for these people between censuses.

Statistics New Zealand is now telling the DHB that it has the slowest-growing population in New Zealand. The DHB disputes this because New Plymouth District Council is receiving about the same number of residential building consents as the Bay of Plenty.

The DHB suggested that collecting population data more frequently or using another method to collect the information would improve the application of the formula.

**Tairawhiti DHB**

Tairawhiti DHB has the highest-need population of all DHBs. It would not like to move away from the formula because the unmet need and rural diseconomy adjusters are important for the DHB. The DHB receives about a 20 percent increase in funding compared to its population when the adjusters are added.

The DHB noted that everybody has an NHI number. It considers that measuring primary health organisation enrolments would obtain more realistic figures than a three- or five-year census.

We asked about whether the high-need populations the DHB was targeting were less likely to enrol in a primary health organisation. The DHB responded that people were more likely to enrol in primary care than to complete a census.
We were interested to hear that the census now includes New Zealander as an option for ethnicity. The DHB expressed concern that this may affect funding for Māori if they choose to identify solely as New Zealanders.

**Home Based Support Services**

Home Based Support Services (HBSS) are services provided to people over the age of 65 to enable them to remain living in their own homes as they age. DHBs fund and purchase HBSS from non-government service providers. DHBs use the International Residential Assessment Instrument (InterRAI) to assess an individual's service needs.

We asked what pressures the DHBs were experiencing on HBSS, particularly given that workers are now paid for travel between clients.

**Taranaki DHB**

Taranaki DHB told us that one of its biggest challenges was the cost of rest home and hospital care because of an ageing population. In the last 12 to 18 months, the cost of HBSS has increased and the rate of inpatient care is decreasing. We were pleased to hear that HBSS costs a lot less than inpatient care.

The DHB thinks the HBSS is working well for its population. Although it considers InterRAI “unwieldy”, it likes that the tool is consistent throughout New Zealand.

The DHB told us that it can be difficult to get people with the appropriate skills to provide HBSS in rural populations. In its experience, paying for workers' travel time has not been a major cost for the DHB so far.

**Tairawhiti DHB**

Tairawhiti DHB is encouraging people to use HBSS rather than move into residential aged care facilities. It has increased its expenditure on HBSS as a result of this strategy. However, the DHB has also seen an increase in hospital and residential aged care use.

The DHB is supporting an ageing Māori population, many of whom experience the conditions that come with ageing at a younger age than non-Māori. The DHB is finding that many older people are less supported by whānau members than in the past. This is because people have migrated out of rural areas or overseas.

**Whanganui DHB**

Whanganui DHB supports the in-between travel payments because it believes that the payments help providers recruit a high-quality and stable workforce. It considers HBSS an important tool to prevent loneliness and create social structures for elderly people whose family does not live nearby. The DHB believes that it needs to do more to maximise HBSS's potential.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of the Lakes District Health Board, the Tairawhiti District Health Board, the Taranaki District Health Board, and the Whanganui District Health Board. We heard evidence from the four district health boards 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
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Lakes District Health Board, Responses to questions, received 8 December 2016.
Lakes District Health Board, Responses to post-hearing questions, received 20 March 2017.

Tairawhiti District Health Board, Responses to questions, received 31 January 2017.
Tairawhiti District Health Board, Responses to post-hearing questions, received 17 March 2017.

Taranaki District Health Board, Responses to questions, received 30 January 2017.
Taranaki District Health Board, Responses to post-hearing questions, received 20 March 2017.

Whanganui District Health Board, Responses to questions, received 30 January 2017.
Whanganui District Health Board, Responses to post-hearing questions, received 20 March 2017.
2015/16 Annual review of the
Ministry of Health

Report of the Health Committee

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Ministry of Health

Recommendation
The Health Committee has conducted the annual review of the 2015/16 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 function is to improve the health and wellbeing of New Zealanders by:

- leading New Zealand’s health and disability system
- advising the Minister of Health and the Government on health and disability matters
- purchasing national health and disability support services
- providing New Zealanders with health sector information and payment services.

In April 2016, the ministry launched the updated New Zealand Health Strategy. This sets the direction for the health and disability system for the next 10 years. The strategy’s aim is for all New Zealanders to live well, stay well, and get well.

Financial performance
In 2015/16, the ministry’s total revenue was $189.608 million. Its total expenditure was $190.301 million, resulting in a net deficit of $693,000. After adjustments were made for gains on property revaluations, the deficit was $143,000.

In 2015/16, the ministry administered $15.08 billion of expenditure, including $11.791 billion of population-based funding for District Health Boards (DHBs).

Third party performance reporting
In our 2014/15 annual review, we noted that the Office of the Auditor-General had issued a non-standard audit opinion on the ministry’s performance information. This was because the ministry has limited controls over most of the performance information it receives from third-party health providers. We noted that the ministry was putting considerable effort into developing an effective response to this issue.

In 2015/16, the Office of the Auditor-General again issued a modified audit opinion on the ministry’s non-financial performance reporting. However, the ministry has made progress in identifying an approach that will provide greater certainty for the performance information. This approach has been confirmed with the Office of the Auditor-General and is being progressively applied to DHBs during 2015/16 and 2016/17. We are pleased to see the ministry making progress on this matter.

Move to new Wellington premises
In November 2016, the ministry moved its staff from multiple premises in Wellington to a consolidated site at 133 Molesworth Street. This was part of its “Ministry on the Move”
change programme. This is a five-year programme aimed at strengthening the ministry’s leadership and performance in implementing the New Zealand Health Strategy.

The whole-of-life cost of 133 Molesworth Street, which covers 20 years, is about $235 million. This is about $250,000 more per year than the original estimate. To absorb this cost into its baseline funding, the ministry is looking for ways to make better use of the space at 133 Molesworth Street. It intends to create a health hub and charge other health organisations in the sector to use the premises. The ministry is working to implement this plan.

**Bowel screening programme**

In Budget 2016, the ministry received partial funding of $39.3 million over four years to begin a staged roll-out of a national bowel screening programme. This covers the cost of the design, planning, and set-up phases. In May 2016, the Minister of Health announced that additional contingency funding had been set aside for the necessary IT support for the programme. The ministry told us that a final decision on IT expenditure is yet to be made, but it will come out of the $39.3 million funding.

**Progress of the bowel screening programme**

In August 2016 the Cabinet approved the business case for the overall programme and first phase of the national bowel screening programme. The business case set out the justification, proposed approach, timing, and cost of procuring such a programme. The programme is now in the detailed planning phase, to ensure that the health sector has sufficient time to implement a safe bowel screening programme.

We were pleased to hear that the Waitemata, Hutt Valley, and Wairapapa DHBs expect to begin the full bowel screening programme on 1 July 2017. The ministry is confident that the remaining 17 DHBs will start bowel screening in stages over the next three years. We intend to monitor the progress of the programme and its implementation.

**Funding for DHBs**

We asked how much DHBs would contribute from their baseline funding to implement the bowel screening programme. We were told that each DHB will have a business case to roll out the programme in its own district, including a clear specification of its total expenditure. This will differ depending on the DHB’s existing IT system. The ministry will work closely with each DHB to prepare the business cases. It will consider on a case-by-case basis whether additional funding is needed.

We asked what additional funding would be given to provide follow-up treatment for those who receive a cancer diagnosis after being screened for bowel cancer. The ministry said that there will be an initial increase in workload as each DHB begins the screening programme. However, that would be managed within their normal patient care. The follow-up work would be considered as part of normal post-care screening.

Some of us are concerned that there is no funding to cover this expected increase in need for treatment, and that the additional work will need to fit in with normal care.

**Mental health**

**Reduction in acute adult inpatient beds**

In 2015/16 the total number of acute adult inpatient beds for mental health patients reduced from 602 to 589. The ministry told us that, although it is each DHB’s
responsibility to manage the demands on their services, it carefully monitors whether the services are meeting demand and that the services are of good quality.

The ministry continues to see increased demand for secondary and specialist mental health services. It has been working to improve primary and community care services to alleviate some of that demand.

We asked what work the ministry is doing to improve access to community services and ensure DHBs are adequately funded for these services. We heard that the Director of Mental Health is leading work throughout the sector to examine options for improving mental health services. The ministry works closely with the health, social, and justice sectors as part of this process.

**Nationwide inquiry into mental health services**

There have been calls for a nationwide inquiry into the structure of mental health services. We asked whether the ministry considers that such an inquiry should take an even wider approach, to ensure that there is sufficient access to services and resources.

The ministry noted that the Minister has already responded to the calls for an inquiry. It believes New Zealand has “a good quality mental health service across the country”. However, as in other countries, the service is dealing with increased demand. The ministry is focused on how it can continue to improve and expand mental health services.

**Youth mental health services**

The Minister of Health reportedly said recently that young people who need mental health treatment receive appointments within three weeks. However, some of us have heard that the time between the first appointment and a follow-up appointment is up to eight months.

Data from DHB mental health services for 2015/16 shows that 91 percent (14,681 youth clients) were seen for their first visit within eight weeks. In the same period, 74 percent (9,479 youth clients) received their second appointment within eight weeks. Some of us remain concerned about how long some young people must wait for their follow-up appointments.

**Regional mental health services at Princess Margaret Hospital**

The Princess Margaret Hospital in Christchurch provides various regional mental health services. They include services for: people with eating disorders, adolescents throughout the South Island, mothers and babies, and people in need of rehabilitation.

The Director of Mental Health has said that it is inappropriate for these services to remain at Princess Margaret Hospital. Given this comment, we asked why the hospital has not been closed and its staff shifted to the refurbished Parkside building at Christchurch Hospital.

The ministry told us that the original business case for construction of the acute services building at the Christchurch Hospital included $21 million funding to upgrade the Parkside building. The DHB planned to move some regional mental health services to the Christchurch Hospital, but this was not included in the business case. The business case included funding for some rehabilitation services and those for elderly people, to move to Burwood Hospital. These services have now moved to the upgraded Burwood Hospital.

The DHB is developing a business case about where to provide services for people who are currently treated at Princess Margaret Hospital. The provision of regional mental health
services will remain there for at least two years because the DHB needs to plan, design, and construct any new building. The business case will identify whether the DHB will seek Crown funding or whether it believes the project can be funded from its earthquake programme of works or from business as usual funding.

We hope to see a prompt decision made on where to locate these services.

Support for children with Autism Spectrum Disorder

In 2014, the Government provided an additional $32 million over four years to support people with Autism Spectrum Disorder (ASD). We asked what support is provided to ensure that children with ASD are diagnosed. We were told that clinical teams in paediatrics, child and adolescent mental health, or child development services are responsible for ASD diagnosis and referral for intervention and support. Each DHB has a developmental coordination function in its area to support families with suspected ASD before and after diagnosis.

We asked for projected figures of how many children are expected to be diagnosed with ASD, and whether an increase is expected. We were told that no research has been conducted on the prevalence or incidence of children diagnosed with ASD in New Zealand. The 2016 New Zealand Autism Spectrum Guidelines, which have been jointly maintained and developed by the Ministry of Health and the Ministry of Education, use research from the United Kingdom. This assumes a rate of ASD in New Zealand of 116.1 per 10,000 children. Boys are diagnosed at a ratio of four to one over girls.

In April 2014, Disability Support Services confirmed the number of children with ASD who receive no other disability entitlement. Since then, the number of children with ASD who receive funded support has increased. However, this does not represent all children diagnosed in New Zealand, because not all children with ASD require funded disability support. International research suggests that the incidence of ASD may be rising. However, it is unclear whether this is due to better identification and diagnosis, or because of changes to diagnostic systems.

Rheumatic fever prevention in Auckland and Waitemata

The Rheumatic Fever Prevention Programme has been running for five years. The programme aims to reduce the incidence of rheumatic fever by two thirds, to 1.4 cases per 100,000 people, by June 2017. Although progress is being made nationally, the rates in the populations served by the Auckland and Waitemata DHBs are not decreasing at the same rate as other populations.

The ministry is considering the distribution of patients in the Auckland and Waitemata DHBs’ areas to see whether they have different attributes to other areas. The ministry thinks that community development programmes, which have worked in other areas where rheumatic fever cases are concentrated, will not have the same success in Auckland and Waitemata. This is because patients in Auckland and Waitemata are distributed across the regions.

The ministry agrees that housing conditions contribute to rheumatic fever. It is working with the Ministry of Social Development and Housing New Zealand on home improvement schemes for rental homes.

The ministry told us that patients will not make it into the health system unless they are identified as being at risk of contracting rheumatic fever. Therefore, it considers
community promotion the best investment it can make. This improves people’s knowledge about rheumatic fever and where to go to access services.

**Primary health care funding**

We sought comment on a November 2016 article in the medical news publication New Zealand Doctor. It reported that primary care representatives believe that there has been a $250 million cumulative shortfall in patient subsidy funding over the past nine years because the funding has been less than the calculated cost. The ministry told us that it disputes this comment.

The ministry said that each year an independent consultancy firm uses an agreed methodology, based on Statistics New Zealand indices, to calculate general cost pressures and what increase in patient fees is reasonable. Additional Government funding and patients’ fees compensate general practice for the cost pressures.

Primary care funding has increased from $667.2 million in 2008/09 to an estimated $892.7 million in 2016/17. This is an increase of about 34 percent over eight years.

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Appendix

Committee procedure

We met on 30 November 2016 and 15 March 2017 to consider the annual review of the Ministry of Health. We heard evidence from the ministry and received advice from the Office of the Auditor-General.

Committee members

Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Organisation briefing paper, prepared by committee staff, dated 28 November 2016.

Ministry of Health, Responses to written questions, received 28 November 2016.

Ministry of Health, Post-hearing responses, received 2 February 2017.
The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Northland District Health Board (DHB).

In 2016, we reported to the House on Petition 2014/20 of Robert Sintes. The petition requested that the House of Representatives note that 1,800 have signed a petition requesting that the Government and the Northland District Health Board immediately and without delay re-establish an afterhours doctor’s surgery office in Kerikeri to include weeknights, weekends, and public holidays, and to reinstate the recently axed after-hours doctor’s services at Whangaroa Hospital.

After considering this petition, we noted that the establishment of an after-hours service at Kawakawa was beneficial to patients and clinical staff. We were satisfied that the DHB had considered the options available to it when making decisions about the provision of after-hours services in the area.

In our report, we noted that we would require an update of the after-hours health services at the Bay of Islands Hospital in Kawakawa. This was to be provided at the DHB’s next annual review.

The DHB told us that an after-hours general practitioner (GP) service continues to be provided for the Mid North district at the Bay of Islands Hospital. Services are available between 5pm and 8am on weeknights, and from about midday Saturday to 8am Monday, and public holidays.

The DHB believes that the service:

- removes confusion for patients about where to go for after-hours services
- provides close clinical support for GPs and hospital staff
- minimises costs for patients
- provides a less onerous roster for GP staff delivering the after-hours services
- provides a single point for ambulances to deliver patients requiring care.

We have no further matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Blood Service, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Simon O’Connor
Chairperson
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Pharmaceutical Management Agency

Recommendation

The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Pharmaceutical Management Agency, and recommends that the House take note of its report.

Introduction

The Pharmaceutical Management Agency (Pharmac) decides which pharmaceuticals are publicly funded. It makes choices about district health boards’ spending on vaccines, community medicines and medical devices, and cancer medicines.

The chief executive is Steffan Crausaz and the chairperson is Stuart McLauchlan. Pharmac is governed by a board of five members appointed by the Minister of Health.

Financial and service performance

In 2015/16, Pharmac had revenue of $32.612 million and expenses of $25.886 million, resulting in a net surplus of $6.746 million. Pharmac manages the Combined Pharmaceutical Budget, $800 million in 2015/16, on behalf of the Health sector.

The Auditor-General assessed Pharmac’s management control environment and its financial information systems and controls as “very good”. He assessed the service performance information and associated systems and controls as “good”, the same as in 2014/15. Given that Pharmac’s expanded role includes the procurement of hospital medical devices, we are pleased that it has appropriate systems and controls in place. We hope to see future improvement.

Pharmac told us that it is proud of its significant procurement programme in hospital medical devices, which it estimates will deliver a saving of $30 million for district health boards (DHBs). We have requested further information from Pharmac about the National Oracle System (NOS) currently being developed for DHBs, as we have been told that it will not provide the data about spending patterns that was expected from the Finance, Procurement and Supply Chain project that the NOS project replaced.

Budget processes for funding medicines

We asked Pharmac to explain how it provides advice to the Government about what will be funded each year. It explained that it develops advice in consultation with DHBs, and provides it to the Minister as part of each year’s Budget bid process. Pharmac noted that it had successfully proposed additional funding for highly cost-effective medicines. In Budget 2016, the Minister of Health announced an increase of $124 million over four years. This includes an extra $39 million in 2016/17 in addition to an $11 million contribution from DHBs.

We heard that Pharmac is making the most of this increased investment on pharmaceuticals by entering into commercial arrangements for vaccines, such as the HPV (Human papillomavirus) vaccine, and treatments for Hepatitis C and cancer. We are pleased to hear that there is a more “social investment” approach to funding treatments.
Pharmac told us that more than 50,000 New Zealanders affected by Hepatitis C will benefit from additional investment in new medicines. We note that the approach to Hepatitis C is an example of an impressive change, from managing conditions to a curative model.

Notwithstanding the increased funding, some of us are concerned that there is still no funding for a number of feasible treatments for conditions that affect tens of thousands of New Zealanders. We asked if the Minister is aware how many lives would be saved if the Government provided more funding. Pharmac said that estimating this is part of its methodology. Its assessment of cost-effectiveness includes a quality-adjusted-life-year measure. For example, it might look for treatments that can provide 50 quality-adjusted years of life per million dollars invested, out of the entire list of fundable opportunities. Pharmac’s role is to give the information necessary for Ministers to form a view.

Pharmac noted that Budget bids do not include specific medicine investment options. It explained that options change over time as Pharmac receives new applications for funding. It also emphasised that disclosing investment options at any time would undermine Pharmac’s ability to conduct commercial negotiations. This could let companies charge higher prices, and reduce the health outcomes possible for New Zealanders. Pharmac does not provide the list and names of drugs to the Minister. Instead, it provides options based on everything that Pharmac knows. They include information on what it would take to fund everything it has assessed, even products deemed to be “low value”.

**Decision-making framework for assessing pharmaceuticals**

In 2015/16, Pharmac implemented the biggest change to its decision-making framework in the last 23 years. It now applies decision-making criteria called “Factors for Consideration”. These include need, suitability, health benefits, and costs and savings. Pharmac said it considers the pros and cons of funding choices, the people who may benefit from treatment, their family/whānau and wider society, and the wider health system.

Pharmac said its “relentless focus on evidence” is driving it to find the next best thing to be funded with “our precious health dollars”. It reports that, over the past 10 years, 136 new medicines have been funded, access has been extended to 245 other medicines, and an estimated 600,000 New Zealanders now have access to medicines they did not have previously.

**Treatments for cancer**

We asked Pharmac about cancer medicines that are funded in Australia but not New Zealand. Pharmac noted that it recently published an updated analysis of the list of cancer medicines. It said it monitors and uses funding assessments from other countries, including Australia. However, its decisions on funding are based on “what is the next best use of funding in New Zealand”.

Pharmac told us that it receives 40 to 50 applications from suppliers for funding medicines each year, including for cancer. It assesses the clinical data, combined with extensive economic modelling and assessment of all “Factors for Consideration” criteria. Pharmac noted that it has funded eight treatments for cancer between 2011/12 and 2015/16, and widened access to 13 more.

We discussed the report commissioned by Pharmac “Mind the gap - an analysis of cancer medicines in New Zealand and Australia”, which was recently released in revised form.¹ We

¹ [https://www.pharmac.govt.nz/tools-resources/research/mind-the-gap/](https://www.pharmac.govt.nz/tools-resources/research/mind-the-gap/)
were told that 89 cancer medicines are funded in both countries. Of the 35 medicines that Pharmac does not currently fund, only three provide real, meaningful benefit. Pharmac told us it has already funded one of these and is considering funding applications for the two others. The report found that a further 17 medicines provide only moderate or poor benefits, and five potentially caused harm or worse health outcomes compared with treatments currently funded in New Zealand.

Some of us suggested that there were methodological flaws and an element of self-interest the first time Pharmac commissioned the report, as it did not take into account the wider range of drugs used for treatment. Pharmac told us that the report did not seek to answer every question about access to medicines. It was the result of a scientific, peer-reviewed process, and its analysis had been discussed with the oncology community.

We asked about the cost of the report and its associated publicity. Pharmac told us that it was important to promote the research in an understandable way. Therefore, it had commissioned animation and a YouTube video.

We heard that in 2016/17, in partnership with the Health Research Council, Pharmac will be calling for research bids for other studies. We look forward to the findings of these independent research projects.

Breast cancer treatments

Pertuzumab (Perjeta) is a treatment for patients with HER2+ metastatic breast cancer. Pharmac has funded this drug since the beginning of 2017. We asked if it is also available to people who had been self-funding the drug previously. Pharmac replied that Pertuzumab is registered with Medsafe for these patients’ treatment in combination with Trastuzumab (Herceptin for the treatment of breast cancer). We were pleased to learn that those who were self-funding are now eligible for funded treatment.

Melanoma treatments

Pembrolizumab (Keytruda) is a treatment for melanoma that has spread or cannot be removed with surgery, and for certain non-small-cell lung cancer. Nivolumab (Opdivo) is a treatment for patients with unresectable or metastatic advanced melanoma. Both are known as PD-1 (programmed cell death protein 1) inhibitors.

We asked about Pharmac’s statement in the media that Pembrolizumab did not improve survivability for advanced melanoma. We asked if it was aware of published phase 3 studies that show improved overall survival for advanced melanoma with PD-1 inhibitors. Pharmac said it is aware of a wide range of evidence about PD-1 inhibitors. It commented that “clinical trial evidence related to survival outcomes for both products was an integral and important consideration throughout our assessment”.

We expressed concern that Pharmac did not use a single competitive tender process to fund a PD-1 inhibitor. We were told that Pharmac chose to enter into direct negotiations with two companies for a listing of a PD-1 inhibitor treatment for unresectable or metastatic melanoma, and both suppliers submitted counter-proposals. Pharmac told us it entered into negotiations with both to get the best value outcome.

We asked whether Pharmac assessed the impact on services before announcing funding for Opdivo or Keytruda. Pharmac told us that it always takes into account effects on the broader health system, and it consults on funding proposals with DHBs before it makes a decision. Pharmac said it undertook an analysis estimating the DHB costs involved in
scans, infusions, and compounding. It added that the choice of treatment between Opdivo or Keytruda is a matter for clinicians with their patients. It was not a question of Pharmac’s preference.

Colorectal cancer

Cetuximab (Erbitux) is a type of monoclonal antibody used in the treatment of advanced colorectal cancer, and cancer of the head and neck. Pharmac did not fund Cetuximab in the previous financial years, 2011/12–2015/16. We asked whether Pharmac had consulted the Minister on funding Cetuximab. Pharmac responded that its decision-making is independent of the Minister, as provided for in the Crown Entities Act.

Reviewing already approved and funded medicines

We asked if there is a process for reviewing medicines that already have funding approval, particularly when new evidence emerges. Pharmac said it has such a process through its therapeutic group review. For example, new evidence emerged that Prozac (Fluoxetine), used in the treatment of depression and anxiety, was not as effective as first thought. We were told that there are strong commercial imperatives for putting forward proposals for funding of new drugs, so it is a balance between examining the old and the new in the context of its search for the “next best spend for the next best thing”.

Off-label uses of medicines

We asked Pharmac for its view of “off-label” (unapproved) uses of medicines and products. It explained that there are various examples in the pharmaceutical schedule that could be termed an “off-label” use. Pharmac said that the core principle is evidence (investigator-driven research rather than simply company research), and whether Pharmac is convinced that this is the best use of funding. The burden of proof is generally with the commercial body trying to get the medicine into the market. While Pharmac largely funds “on-label” products approved by MedSafe, it also looks more widely to see if there are other uses deemed reasonable.

Early access schemes

We asked about early access schemes, to allow funding for a new or promising medicine based on what the early research is showing. Pharmac explained that it is “actively managing a queue of medicines” and always seeking to make sure the ones that get through the funding door are the best ones. It is mindful not to divert funding away from proven treatments. On the other hand, if it can pay less it can fund more. Pharmac told us that it has to be careful to act within its mandate when it comes to early access as evidence is still emerging.

Cannabis-based medicines

We asked about the demand for cannabis-based medicines in New Zealand, such as Sativex. Sativex is used for symptom improvement in patients with Multiple Sclerosis, but because it is a cannabis preparation is classified as a Class B(1) drug product under the Misuse of Drugs Act 1975. Pharmac said it is “agnostic” about the source of the medicine; the more important issue is the therapeutic evidence. It pointed out that it funds other medicines that are opiate-based.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of the Pharmaceutical Management Agency. We heard evidence from the Pharmaceutical Management Agency and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Pharmaceutical Management Agency, Responses to written questions, received 6 December 2016 and 2 March 2017.

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Southern District Health Board

Recommendation
The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Southern District Health Board and recommends that the House take note of its report.

Introduction
The Southern District Health Board (DHB) plans, funds, and provides publicly funded health care services to about 316,000 people. Most of these people live in Dunedin, Invercargill, and Queenstown. The DHB covers the largest geographic area of any DHB. It was formed in 2010 by merging the Southland and Otago DHBs.

The DHB is governed by a commissioner, with support from two deputy commissioners, after the Minister of Health dismissed the board in July 2015. The commissioner's team is scheduled to continue until the election of a new board in the 2019 DHB elections.

Chris Fleming was appointed as chief executive of the DHB in January 2017 after several months as interim chief executive.

Financial performance
In 2015/16, the DHB’s total revenue was $903.676 million and its total expenditure was $937.219 million. This resulted in a deficit of $33.5 million, against a budgeted deficit of $35.9 million. This is the first time in several years that the DHB has reported a deficit below the agreed budget. However, the deficit is still higher than the 2014/15 deficit of $27.2 million.

The Office of the Auditor-General graded the DHB’s management control environment as needing improvement. It recommended improvements to its budgeting process, risk management framework, and IT control environment, and that the DHB implement an organisation-wide contract policy.

Financial sustainability
In its 2016/17 Annual Plan, the DHB outlined a five-year time-frame to balance its finances, with a deficit of $22 million reducing by about $8 million per year until a small surplus would be achieved by 2019/20.

We asked the DHB how it planned to improve its financial performance. The DHB told us that it has worked on strengthening its monitoring and reporting against budgets. It is also working on identifying emerging financial challenges.

The DHB recognises that, to achieve a sustainable pathway to breaking even, investment in areas such as quality and safety initiatives cannot be cancelled. It is working on achieving a balance of reducing the deficit and making some investments.
Funder and provider arms

The provider arm of the DHB delivers secondary, community, disability, tertiary, and mental health services to the Southern district. The funder arm manages the planning and funding of health services.

The DHB told us that, two years ago, the funder arm was breaking even and the deficit was in the provider arm. This misrepresented the situation because the funder arm passed all its resources to the provider arm. The DHB is now running deficits in both the provider and funder arms.

We asked how the deficits in the provider and funder arm affect the provision of primary and community care and services. The DHB acknowledged that it has had an effect, but it needs to be realistic about the challenges it faces. It told us that it knows that it is not investing enough in primary and community mental health.

Extending theatre hours

We asked whether the DHB had the workforce capacity to extend its theatre hours to nights and weekends to meet the surgery demands. Although there is no plan to extend theatre hours to nights, the DHB is consulting on a proposal to extend theatre hours at the Dunedin site for some sessions from an 8 hour day to 9.5 hours per day. There is also a proposal to run an extra acute list of 8 hours on a Sunday. If the proposal proceeds, extra staff would need to be employed.

The DHB told us that it has to outsource when it does not have the capacity to provide certain services. The DHB has to pay the direct costs, as well as contributing to the overheads and profit of the third party providing the service. Extending theatre capacity would reduce outsourcing costs, which would help reduce the DHB’s deficit.

Heavy rain event

A heavy rain event in Dunedin on 13 February 2017 resulted in the closure of the Dunedin Urgent Doctors and Accident Centre (DUDAC). Some of us have heard reports that the radiology department at Dunedin Hospital was also affected. The DHB maintenance team received a number of requests relating to leaks on 13 and 14 February 2017. However, although there were some minor issues, the equipment and service provision at Dunedin Hospital were not affected.

The chief executive is waiting on a full report on the implications of the event. He has been assured that services at Dunedin Hospital were not disrupted, except for the additional pressure in the emergency department because of the closure of DUDAC.

Transparency

We asked the chief executive whether he is committed to a culture of transparency in the organisation. The chief executive told us that the DHB is committed to a fair and just culture, and that transparency is a part of that. The DHB is focused on rebuilding its relationship with the community and believes that the commissioner’s team has made significant progress on this.

The DHB told us that, in the past, it had no method of communicating decisions to stakeholders. It has established a Community Health Council and a Clinical Council.

The aim of the Community Health Council is to ensure that patient perspectives are heard throughout the health service and to promote regular communication within the
community. The Clinical Council was established to provide the commissioner with balanced, clinically informed advice on existing services or proposed changes in service configurations or functions.

We were pleased to hear that the DHB is making progress on community engagement.

**Official Information Act requests**

Some of us are concerned about the availability of Official Information Act (OIA) responses to media. We are particularly concerned that correspondence between the commissioner and the chief executive is no longer being released. We note that it is very hard to know which questions to ask the DHB without access to information.

The DHB told us that it receives the highest number of OIA requests of all DHBs. The chief executive has a meeting planned with the editor of the Otago Daily Times, with a view to forming a better relationship with the media.

**Owning our Future work plan**

Owning our Future, a one-page work plan, set out the organisation’s principles, key performance targets, and building block projects to be achieved by December 2015. Culture was placed at the centre of the plan because the commissioners considered changing the culture to be one of the DHB’s biggest challenges.

The DHB told us that this was a challenging piece of work. However, there has been positive engagement, particularly from senior medical staff. The DHB has made good progress, but it acknowledges that there is still a lot of work to do.

We were pleased to hear that there is a progressive “mind-set change”. The chief executive is confident that this work will lead to greater trust and openness, and improved morale.

**Dunedin Hospital rebuild**

In 2014, the previous Minister of Health stated that he hoped that there would a business case to rebuild Dunedin Hospital within the next year. Some of us are concerned that there is still no business case.

The DHB told us that it is following the Treasury’s Better Business Case process. It expects an indicative case by June 2017. This will be followed by a detailed business case and a business case for its implementation.

Although the June deadline is “looking tight”, the Partnership Group, the DHB, and the Clinical Leadership Group are working positively towards that deadline. The DHB told us that the detailed business case is expected by June 2018.

We asked about the expected time frame for completing the rebuild, noting that some Australian reports state that, once the planning principles of a rebuild are agreed, it is not unusual to complete a rebuild in four years. The DHB told us that the indicative time frame is 7 to 10 years.

The DHB believes that, if it starts the rebuild too soon, it will get the wrong model of care and the wrong building. It said that the clinical team needs to do a lot of work to develop a model of care that is sustainable and meets the community’s needs. The DHB believes that, if it does not get the correct design, it could end up in clinical, sustainable, and financial difficulty.
We asked whether the DHB had considered the effect that the proposal for another medical school in Waikato would have on the rebuild. The DHB told us that the rebuild will have to allow for some teaching and research.

The commissioner and the chief executive are on a combined forum with the pro vice chancellor of the University of Otago. They are discussing how any rebuild will need to integrate with the medical school and health services. The DHB considers the key is to build something that is flexible and can change in scale if necessary.

**Innovation**

The DHB defines innovation as “something that has a positive impact.” Some examples of innovation in the DHB are:

- While You Wait, a new resource for people on waiting lists with the Primary Mental Health Brief Intervention Service and Mental Health, Addictions and Intellectual Disability Services
- Nurse-led continence clinics for educating in the months before radiation treatment starts
- Paediatric diabetes clinics provided via Skype to the Central Otago community
- Ipu whenua, a biodegradable vessel which gives new parents the option of taking their placenta and umbilical cord home to be buried
- Breaking the Mould, a programme to manage and discharge minor orthopaedic injuries from the emergency department.

**Aged care**

**Home and Community Support Services**

Home and Community Support Services (HCSS) provide support to people over the age of 65 so that they may continue living in their own homes and remain independent. In 2015/16, the number of HCSS support workers who had completed the minimum training requirements was 70 percent. This was below the target of 80 percent.

We asked why the training was below the target and what could be done to improve this. The DHB agrees that training for HCSS workers is very important. It expects the DHB’s planning and funding team to work with aged-care providers to ensure that they have the correct support and access to training.

**Dementia**

We note the sharp increase of diagnosed dementia patients in the region, and that levels of diagnosis are significantly below target. We asked whether the DHB is working with providers to ensure that there is enough access to services.

The chief medical officer said that he had asked why there is a target for the number of people with dementia. However, he acknowledged that the DHB needs to be aware of the numbers of people with dementia.

The DHB is working with primary care providers to develop a healthcare pathway model. This is a model of operation where general practitioners can continue to be involved through all stages of assessment, investigation, and diagnosis of dementia.
The DHB recognises the importance of dementia and its associated problem, delirium. It told us that its “future normal” patient will be a frail, elderly patient who may have dementia. If it does not remodel its service for those patients, it will not succeed.

**Dunedin Physio Pool**

The Physio Pool is Dunedin’s only therapeutic swimming pool. We asked what assurance the DHB could give the Dunedin community, which donated $1.2 million to save the pool, that they will have access to the existing pool, or at least an equivalent pool, during the next five years. The DHB told us that it is working with the Otago Therapeutic Pool Trust. The Physio Pool continues to operate and is being used as it always was.

The chief executive could not give an assurance at this stage where the pool will be located after the rebuild because this will be a part of the business case.

We asked whether the DHB is committed to continue providing the pool service. The chief executive said that, in the interests of transparency, he was unable to give that commitment. The DHB said that, from a clinical perspective, it uses the pool about five hours per week, so it would be happy to support a community solution.
Appendix

Committee procedure
We met on 15 February and 15 March 2017 to consider the annual review of the Southern District Health Board. We heard evidence from the Southern District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Southern District Health Board, Responses to written questions, received 30 January 2017.

Southern District Health Board, Responses to supplementary questions, received 8 March 2017.
2015/16 Annual review of the Waikato District Health Board

Report of the Health Committee

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Recommendation

The Health Committee has conducted the annual review of the 2015/16 performance and current operations of the Waikato District Health Board and recommends that the House take note of its report.

Introduction

The Waikato District Health Board (DHB) provides hospital and health services to about 394,000 people. It covers a widespread geographical area from northern Coromandel to close to Mt Ruapehu in the south, and from Raglan on the west coast to Waihi on the east. About 60 percent of the population live outside the main urban areas.

The DHB provides a range of primary, secondary, and tertiary services to its district. It also provides tertiary services, such as complex surgery, to more than 854,000 people in the midland region.

The DHB has a larger proportion of people living in areas of high deprivation than in areas of low deprivation.

The DHB’s vision is Building Healthy Communities. Its two outcomes are to improve the health of its population and to reduce or eliminate health inequalities.

Financial performance

In 2015/16, the DHB’s total revenue was $1.304 billion and its total expenses were $1.300 billion. This resulted in a surplus of $4 million, against a budgeted $2.2 million.

At the beginning of the financial year, in response to concern about its finances, the DHB established a joint governance executive and board committee. The committee, known as the sustainability committee, met monthly to look at how to adjust services so that they could be delivered within budget.

Population growth

Population growth in the Waikato region is primarily in the urban communities, rather than rural and semi-rural communities. Delivering services to a community that is constantly changing is a challenge for the DHB.

The Population-Based Funding Formula is used to determine funding for DHBs. The population of the DHB is one of the components considered when allocating funding. The DHB told us that it works closely with the regional council and city councils to help with population forecasting. However, the official figures for the formula are taken from the New Zealand Census, which is a “backward-looking system”.

We heard that having the population accurately recognised is an issue. This is because growth rates in the region have been higher than assumed.
**Efficiency plans**

In 2015/16, the DHB received a 2.1 percent funding increase. We were interested in the DHB’s efficiency plans given the growing demand for services, such as in emergency departments.

The DHB told us that it has a significant natural turnover and that any restructuring is mostly managed within this turnover. The DHB has no plans to reduce the overall clinical or medical workload because it is dealing with growing demand. However, it may restructure how and where its pool of staff work. Any plans for efficiency would be to improve the system.

We asked about a November 2016 memo to the board about the reasons for the unfavourable budget position early in the financial year. The memo suggested assessing the nursing levels and reducing where appropriate.

The DHB told us that this was about validating that nursing hours were going into the right areas. The assessment concluded that the DHB is dealing with more acute cases and that the amount of one-on-one time with patients has significantly increased. The DHB has no plans to significantly reduce nursing levels, other than to ensure that the appropriate levels of staff are used for each intervention.

**Supporting rural populations**

**SmartHealth**

The DHB told us that an ageing population and its rural population are two of its biggest pressures. It recognises that it has to extend its reach and believes that technology is a way to do this. In 2015/16, the DHB launched SmartHealth, a new virtual health initiative. The service:

- lets patients talk to their hospital doctor, from their living room, by smartphone or tablet, using the mobile app Health Tap
- provides doctor-approved information on conditions, symptoms, and treatment
- sends messages to patients, including reminders about appointments and taking medication.

We were pleased to hear that this service is benefiting rural communities by saving locals from travelling.

The DHB told us that the cost of setting up SmartHealth was $2.9 million. This consisted of $1.5 million for the hardware required to move to a mobility based system on iOS and $1.4 million for the project delivery, integration, and change activities. The DHB anticipates spending more on the system in the future because it believes that the benefits are worth it.

**Travelling to Hamilton for health services**

The DHB covers a widespread geographical area, which means that many people have to travel long distances for services in Hamilton. Some patients in the Coromandel have expressed concern about having to travel to Hamilton for an appointment, only to get stood down because of an emergency situation.

The DHB said that it often gets complaints about people having to travel long distances for appointments, with no physical contact when they get to the clinic in Hamilton.
Therefore, where appropriate, it uses telehealth technology to extend the reach of specialist services and reduce the need for travel.

In situations where people have to travel, the DHB is working on being more consistent with managing appointments and being aware of where people are travelling from. We were encouraged to hear that the number of people waiting outside clinics for appointments has greatly reduced in the past few years because appointments now run on-time.

We were pleased to hear that people in the Coromandel have been impressed by how DHB staff book appointments. When people have had to travel to Hamilton to see multiple specialists, DHB staff have tried to book the two appointments on the same day. Even when this is not possible, patients appreciate this effort. We commend the DHB for its work on reducing inconvenience for its patients.

**Workforce in rural communities**

We asked what methods the DHB used, other than SmartHealth, to focus its rurally-based workforce. The DHB told us that, in the past, it has under-used scopes of practice, which are the specific areas of practice that a medical professional may operate in.

The DHB wants to ensure that its nurse practitioners, doctors, nurses, allied health professionals, and health care assistants operate at the maximum allowed scope of their practice. It considers nurse practitioners particularly important and will soon broaden their scope of practice. We were pleased to hear that the DHB is not far away from having nurse practitioners running virtual clinic practices.

**Rheumatic Fever Prevention Programme**

In March 2016, the DHB launched the Healthy Homes Initiative as part of the Rheumatic Fever Prevention Programme. The service, which is led by Te Puna Oranga (the Māori Health Service), works with public health nurses to provide products to keep houses warm and dry, and advice on how to reduce overcrowding.

We asked what effect the programme was having on rheumatic fever prevention and whether the DHB planned to extend the programme. The DHB considers the Healthy Homes initiative “absolutely vital” to rheumatic fever prevention. Though the DHB acknowledged that the programme had not been doing so well in recent years its performance was now improving.

The Māori Health and Public Health teams have been working with the relevant social agencies to connect with communities. This includes encouraging young people with throat infections to get penicillin injections.

The DHB has recently launched a virtual health services programme with Spark and other technology companies. The programme will help vulnerable children by connecting them with a health practitioner using smartphone technology. If the children do not have a smartphone, the DHB can lend them one.

The SmartHealth brochure asks people to sign up to its services online. We note that this is a potential barrier for people in poorer communities who may not have access to devices or in rural areas without wireless internet access. The DHB told us that it has mechanisms to ensure that populations do not get left behind.
It is discussing zero-rating websites with Spark. These are specific websites where people do not get charged to use them. It is also working with its support technology companies to provide free devices.

**Mental health services**

In 2015/16, the number of high and complex mental health inpatient beds at the Henry Rongomaru Bennett Centre increased from three to four. We asked whether this would meet the need in the community and whether the DHB needed to do anything else.

The DHB agreed that it needs to do more because there is a growing need in the community. The DHB will continue to provide most of the service in the community, but it recognises that it needs better, more modern facilities and to increase capacity. It is developing a business case to expand its inpatient services.

**Chief executive’s salary**

The financial remuneration for the chief executive moved from being within the band $440,000 to $450,000 in 2014/15 to $560,000 to $570,000 in 2015/16. We asked why the salary had increased by a minimum of $110,000. The DHB told us that the total salary package increased by 2 percent because that is the highest increase that the State Services Commission allowed. Each year, the commission advises on the accepted increase for that year. This includes the whole package and no additional benefits, such as cars.

The DHB told us that the chief executive’s base salary in 2014/15 was $467,445 and his base salary in 2015/16 was $476,509.

The DHB told us that the reason for the difference between the salary bands was as follows:

- Salary withheld from the first year of $46,000. This is seen every time a new chief executive is appointed. The pattern is that cash held in the first year will jump in the second because there is a requirement to withhold the salary.

- A leave payout of $21,000 for two weeks leave that was not taken. The board has a policy of purchasing back leave. This is advantageous to the board because, if the leave stays on the leave balances, it gets inflated by the increase of salary each year. The cost goes up to the DHB each year it sits on the balance sheet.

- A 2 percent increase of $9,000.

- A difference of $40,000 as a result of the chief executive working for only 49 weeks of the 2014/15 year having started his appointment in late July 2014.

The DHB subsequently advised us that the 2015/16 figures also included $16,429 in superannuation contributions.

We asked how the withheld salary differed from a performance bonus. We heard that the commission requires the board to withhold about 10 percent of the chief executive’s salary. The assumption is that the withheld salary is earned and will be paid unless a person significantly under-performs. In contrast, a performance bonus implies that a person will get extra money if they achieve certain things.

**Initiatives targeted at specific groups**

We asked whether the DHB had any initiatives targeted at specific groups, such as ethnic communities or the changing needs of women who are working longer hours. The DHB
told us that, as a large part of the Waikato economy, it recognises that it has to participate in the wellness of its workforce. This includes acknowledging the expectation of work/life balance.

We note that more ethnic communities are settling in Waikato. These groups may have different health requirements, particularly when they change to a New Zealand diet. The DHB believes that its workforce should reflect the make-up of the community, and it is always striving to do this.

It said that its public health and community health district nursing teams are always looking to improve their relationship with the community. The SmartHealth platform also includes a lot of information for the public about diet.
Committee procedure

We met on 8 February and 22 March 2017 to consider the annual review of the Waikato District Health Board. We heard evidence from the Waikato District Health Board and received advice from the Office of the Auditor-General.

Committee members

Simon O’Connor
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Waikato District Health Board, dated 8 February 2017.

Waikato District Health Board, Responses to written questions, received 31 January 2017.

Waikato District Health Board, Responses to post-hearing questions, received 9 March 2017.

Waikato District Health Board, Supplementary responses to written questions, received 8 February 2017.
2015/16 Annual review of the Waitemata District Health Board

Report of the Health Committee

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Introduction

The Waitemata District Health Board (DHB) provides health services to more than 598,000 people in the North Shore, Waitakere, and Rodney. It is the largest and fastest-growing DHB in New Zealand.

The DHB provides child disability, forensic psychiatric services, school dental services, and alcohol and drug services to the Auckland region on behalf of the other Auckland DHBs. It contracts other DHBs to provide some tertiary services, such as cardiac surgery and radiation oncology services.

The DHB has an ethnically diverse population. Twenty percent of its population is under 15 years of age, and 14 percent of the population is over 65 years old. The population served by the DHB has the highest life expectancy of any DHB at 83.9 years.

The DHB’s purpose is to:

- relieve suffering for the people entrusted in its care
- prevent, cure, or ameliorate ill health
- promote wellbeing.

Its two priorities, which influence all of its planning decisions, are better outcomes for its population and a better experience of care.

Financial performance

In 2015/16, the DHB’s total revenue was $1.577 billion and its total expenditure was $1.574 billion, resulting in a surplus of $2.96 million. This was slightly less than last year’s result.

The Office of the Auditor-General assessed the DHB’s performance information and associated systems and controls as “very good”. This was an improvement on last year’s grade of “good”. The DHB has improved the way it tells its overall performance story, clearly demonstrating the links between its activities and outcomes. We congratulate the DHB for this improvement.

Population growth

In February 2015, the DHB’s population was about 574,500 people. It is now close to 600,000 and is expected to rise by 90,000 during the next 10 years.

The DHB told us that it understands the growth in its district in “real time” because it sees the increased demand when people use primary care and hospitals.
provides DHBs with population data. The DHB frequently finds that the population figures in Auckland are underestimated. Although the figures are corrected in the next year, the underestimation is a problem for the DHB because people use the health services in their first year in the area. The DHB has had discussions with Statistics New Zealand about the accuracy of the forecasting. We note that this is a concern for other DHBs and hope that the discussions with Statistics New Zealand result in more accurate figures.

**Emergency services demand**
Demand for emergency services in the DHB’s region is increasing by 5 percent per year. The Waitakere Hospital Emergency Department is the fastest growing emergency department in New Zealand, with attendances increasing by 18 percent since 2012/13. The DHB told us that people are not presenting to emergency departments with minor illnesses. A lot of people in the community have non-communicable diseases, such as diabetes, hypertension, and chronic obstructive airways disease. The DHB said that changes in the temperature or environmental factors can cause people’s health to deteriorate quickly. Although the presentations can be quite predictable, they can come in surges, even for people who have previously been quite stable. This is a significant burden on the hospital system because many of these people can deteriorate at the same time.

The DHB takes some preventative actions, such as immunisation and flu vaccinations. It also ensures that, where appropriate, people have chronic care management plans.

**Ageing population**
The DHB’s population is healthier and lives longer than most other DHBs’ populations. Pacific people’s life expectancy has increased on average by five years during the past 10 years. The DHB’s population base has the lowest mortality rate from cardiovascular disease in New Zealand and the highest survival rate from cancer, at 69 percent after five years. The fastest-growing population in the DHB is the over-85 age group. As people age, they have more chronic diseases and start presenting to primary care. The DHB told us that this is an issue for the whole country and will continue because of the ageing population. To cope with this demographic change, the DHB needs an all-of-community response that focuses on risk factors, such as smoking and obesity, and earlier diagnosis of chronic conditions.

The DHB recently launched a programme in Waitemata focusing on risk factors. The screening programme for abdominal aortic aneurysm is aimed at Māori because they have the highest rates of the condition. The programme is run by primary care and consists of a single once-in-a-lifetime scan. We encourage the DHB to continue introducing targeted programmes such as this.

**Clinician-led quality improvement**
The DHB is focused on improving the quality of care to patients to deliver on its priorities of better outcomes and a better experience of care for its community. It has challenged all of its departments to devise clinically meaningful metrics to measure its services. It believes that clinicians should lead this quality improvement work because they are significant users of the resources of the health care system and are best placed to measure outcomes.
We were interested to hear some examples of quality improvement. The general surgical department is collecting data about the performance of particular operations for conditions such as appendicitis and cholecystitis (inflammation of the gall bladder). It uses this data to look at whether the models of care should be redesigned to deliver improved outcomes and patient experiences.

The DHB also has nurse leaders and junior doctor leaders on each ward working on improving infection control throughout the DHB. We commend the DHB for its emphasis on quality improvement.

**Allocating funds in the funder and provider arms**

DHBs are required to produce separate financial statements detailing the performance of their governance, provider, and funder arms. This is to maintain transparency and accountability.

The governance arm comprises the board members, who are responsible for developing strategy and policy. The provider arm is responsible for running public hospitals and other related public health services. The funder arm allocates funding to the governance and provider arms and to non-government health providers to purchase medical services.

In 2015/16, the DHB had a surplus of $2.96 million, with a deficit in the provider arm and a surplus in the funder arm. We note that there is some concern in the primary care sector that money that should be going into primary care is “propping up” deficits in provider arms. We asked whether the DHB had shifted its surplus from the funder arm to the provider arm and what effect this had on the funder arm and in the community.

The DHB told us that its funder arm funds the whole DHB. The board then decides where those funds will go. It said that some of its hospital services are community services and that the DHB is the biggest community service provider in the Waitemata district.

The DHB told us that it is conscious of making sure all new expenditure does not go into the provider arm of the hospital. It provided examples of recent investment in primary-care-focused mental health services.

During the last 18 months, the DHB has invested $2.9 million into mental health patients with high and complex needs and provided additional beds in the community. The board has also approved an additional $1.4 million for a primary-care-focused mental health plan.

**Sexual health services**

A recent report indicated that syphilis had increased by 78 percent during the past several years. However, in 2015/16, funding to the Regional Sexual Health Service reduced by $226,000. Some of us are concerned that this is a “false economy”.

The DHB told us that the Auckland DHB provides a tertiary-level sexual health service to people in the Waitemata, Counties Manukau, and Auckland regions. The DHB now considers that sexual health services should be managed in the community through primary health care, rather than as a specialist tertiary service, to diagnose problems earlier and because people may feel more comfortable talking about sexual health with their general practitioner.

Some of the tertiary funding has been redistributed to the primary health sector. There is still a specialist tertiary service for more complex cases.
Elective surgery
The DHB performs an additional 1,000 elective surgeries each year. This is the biggest increase in elective surgery in the country during the past five years. It is now considering which elective surgeries will make the most difference to relieve suffering.

The DHB asks patients who have surgery about its effects and how much it has changed their life. The DHB uses this feedback to decide which elective surgeries are most beneficial to the community.

The DHB told us that this involves a change in mind-set from “output to outcome” and “volume to value”. We note this point but asked whether the way that elective discharges have to be accounted for means that it leads to “output over outcome” and “volume over value”.

The DHB told us that its approach has always been that there will be targets, metrics, outputs, and volumes and that it considers these a “means to an end”. It believes that it has a thoughtful and intelligent approach to working within a bureaucracy.

Backlog for eye treatment
The DHB told us that, following a detailed review, Auckland DHB identified that there are some Waitemata DHB who have been waiting longer than clinicians recommend for eye treatment. The ophthalmology service has applied a stratified risk score for all patients who have been identified as waiting. This will ensure that patients with the highest risk score are seen first.

In December 2016, the Ministry of Health provided $2 million to DHBs to develop and implement service improvement plans for ophthalmology services. Before this funding was made available, the Auckland DHB and the Waitemata DHB had been working together to implement a service improvement plan for ophthalmology services. The DHBs submitted a joint proposal requesting $200,000 of the available $2 million nationally. They intend for this funding to offset the costs of the service improvement activities. These include establishing additional clinics to see the overdue patients.

The ministry has received the proposal and the two DHBs are awaiting the outcome of the process. We intend to monitor the waiting times for eye treatment.

Decisions on allocating health resources
We asked the DHB about how, or whether, it should make judgments about allocating scarce health resources to people who make lifestyle choices that affect their health. The DHB told us that the health system and clinicians should not make judgements about the reasons that people need care.

It said that its primary purpose is to relieve suffering, so health services must be delivered to those who need care. The DHB also recognises that the health system needs to focus on creating an environment that makes it easier for people to make healthy choices. This includes providing education aimed at keeping people out of hospital and changing people’s behaviour.
Appendix

Committee procedure
We met on 8 February and 15 March 2017 to consider the annual review of the Waitemata District Health Board. We heard evidence from the Waitemata District Health Board and received advice from the Office of the Auditor-General.

Committee members
Simon O’Connor (Chairperson)
Dr David Clark
Sarah Dowie
Julie Anne Genter
Melissa Lee
Barbara Kuriger
Scott Simpson
Barbara Stewart
Poto Williams

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Waitemata District Health Board, dated 8 February 2017.

Waitemata District Health Board, Responses to written questions, received 30 January 2017.

Waitemata District Health Board, Post-hearing responses, received 10 March 2017.
2015/16 Annual review of the Abortion Supervisory Committee

Report of the Justice and Electoral Committee

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Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2015/16 performance and current operations of the Abortion Supervisory Committee, and recommends that the House take note of its report.

About the Abortion Supervisory Committee

The Abortion Supervisory Committee (ASC) is constituted under the Contraception, Sterilisation and Abortion Act 1977 (CSA Act) as an independent supervisory body to oversee and govern the provision of abortion services in New Zealand.

The ASC’s functions include:

- licensing institutions where abortions may be performed
- appointing certifying consultants with whom women must consult when considering an abortion
- setting standards for facilities that provide abortion services
- facilitating the gathering of statistical information on abortions in New Zealand.

The ASC ensures that abortion law is applied consistently nationwide, but it does not set Government policy on abortion. It is not involved in individual patient care or reviewing individual cases.

Members of the ASC are appointed by the Governor-General on the recommendation of the House of Representatives. The current members of the committee are Professor Dame Linda Holloway (Chair), Dr Tangimoana Habib, and Carolyn McIlraith.

The ASC is required to report annually to Parliament on the discharge of its functions and the effectiveness and impact of the CSA Act. Since the 47th Parliament it has been deemed by the House to be a public organisation subject to Parliament’s annual review process. However, it is not a body corporate, does not administer its own funding, and does not prepare annual financial statements or statements of service performance, so it is not subject to audit by the Auditor-General. The ASC is funded through Vote Justice and supported by the Ministry of Justice.

Call for review of legislation

In its 2016 annual report the ASC commented that the CSA Act was entering its 40th year of operation. In that time there had been significant changes in health care and in society. The ASC called for changes to the legislation that would maintain its integrity and original purpose, but more accurately reflect modern language and processes.¹

¹ Report of the Abortion Supervisory Committee 2016, p. 3.
The ASC told us that this message may have been “over-interpreted” in media reporting. The ASC is proposing modest redrafting of the CSA Act. Issues of wording in the legislation which may seem small are causing difficulties for ASC in the modern context.

For example, the CSA Act is written on the basis that all hospitals are under the charge of a medical superintendent, which is no longer the case. Hospital management is now far more complex, so it is not always clear to the ASC, when licensing an institution, which person is subject to those legal provisions. The Act also refers repeatedly to the “operating surgeon” but in modern cases of medically-induced abortion, there is no operating surgeon, which renders those elements of the law unclear.

The ASC also noted that the language of the legislation is not inclusive and some of it is offensive, such as referring to persons with limited mental capacity as “sub-normal”.

The ASC said that health practitioners are having difficulty understanding and applying the law. While there are some substantive issues with the legislation in this regard, even minor drafting changes to address confusing language would help practitioners on a day-to-day basis.

Litigation

We heard that the outdated law is making the ASC vulnerable to lengthy and expensive litigation. The ASC was involved in court actions from 2004–2012, and again from 2014–2015, in which anti-abortion groups challenged aspects of its certifying and licensing functions. This action resulted in the Ministry of Justice paying $470,359.49 in legal fees. The ASC was ultimately successful in the cases, because the courts applied an “ambulatory approach” to the CSA Act, which means that it is interpreted in a way that applies to circumstances as they arise.

Nevertheless, the ASC is concerned that the door remains open to these kinds of challenges, because the law reflects the language of the 1970s. It believes that a clearer law with modern terminology would assist in avoiding time-consuming and costly litigation over its role and powers.

Working with the health sector

The ASC said that although abortions are regulated under the Crimes Act 1961, abortions are essentially health matters and are also subject to a range of health-related legislation. The ASC’s law and practices therefore need to reflect the modern health sector. The ASC said it is doing as much as it can to liaise with officials in the Ministry of Health. There is an official working on women’s health planning, to whom the ASC has regular access and with whom it can raise issues for the ministry’s attention. The ASC observed that the period when the same minister had been responsible for both justice and health had been helpful for it.

We urge the Ministers of Justice and Health, and officials in both ministries, to cooperate as effectively as possible to support the ASC and the provision of high-quality abortion and related care services to New Zealand women.

Response to the petition of Hillary Kieft

In 2015 and 2016, we considered a petition from Hillary Kieft and six others, relating to parental notification and informed consent for pregnant women under 16 years old, prior
to the conduct of any medical procedure. Our report\(^2\) on that petition made a number of recommendations to the ASC, including that:

- it should collect data on the uptake of post-procedure care, such as counselling
- it should take responsibility for and strengthen post-procedure care and oversight
- when renewing or certifying consultants, it should emphasise their responsibilities for post-procedure care and for protecting children under 16 who have abortions
- it should work with District Health Boards to confirm best practice guidelines for pre- and post-procedure care, and mandatory follow-up for children under 16, especially those who choose not to inform a parent or caregiver.

In its annual report the ASC acknowledged these recommendations and said it intended to take a number of actions in response to them. It added, however, that “it is important to understand that there are limitations on the ASC’s ability to implement some of the recommendations due to legislative restrictions and resourcing\(^3\).

We asked whether the modest legislative changes proposed by the ASC would resolve these issues, and were told they would not.

**Pre- and post-procedure care**

The ASC told us that in 2017 it will review and revise its Standards of Care document, which provides guidelines for abortion providers and certifying consultants throughout the country. The new version will include a section emphasising the particular needs of some women, including women under the age of 16, with or without parental support. The review will also consider in some detail, in consultation with health officials, other ways in which post-procedure and counselling support can be strengthened.

**Collection of data and statistics**

The ASC reported that it has worked with Statistics New Zealand to change its data collection form, in order to obtain figures on the number of young women who have or have not notified a parent of their pregnancy and abortion. The ASC has been warned, however, that because only a few women are involved, privacy considerations may prevent the release of those statistics. We encouraged the ASC to work with Statistics New Zealand to explore whether there is a way to provide the statistics without compromising the privacy of the individuals concerned, such as removing geographic indicators.

The ASC reported that information on post-procedure care and counselling is difficult to gather, as those services are carried out by various agencies. The ASC does not have the legislative authority to require patient details from anyone other than the doctor who performed the abortion. The ASC told us that the best it could do would be to include a provision in the new standards of care, requiring that documentation be kept on the post-procedure support provided.

We understand the impact of the ASC being unable to collect more meaningful statistical data, including about young women and post-procedure care and counselling. We recognise the need to balance this with privacy laws and other legitimate restrictions, such as medical professional standards. Bearing that in mind, however, we encourage the

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\(^2\) The committee’s report on the petition, dated 7 July 2016, is available on the Parliament website, [www.parliament.nz](http://www.parliament.nz).

\(^3\) Report of the Abortion Supervisory Committee 2016, p. 6.
Government and relevant agencies, including the Ministry of Health and Statistics New Zealand, to consider what further measures could be taken to remove obstacles to the ASC performing its duties in this area.

Requests for information and advice

We asked about the number of information requests made to the ASC, including requests for advice on abortion law. The ASC said it receives many Official Information Act requests each month, as well as a large number of oral inquiries in its discussions with people around New Zealand. Because it is not the ASC’s role to provide legal advice, it advises practitioners to consult their own legal counsel if they ask for interpretation of the law. The ASC added that Ministry of Justice officials deal with many requests for advice on its behalf.
Appendix

Committee procedure
We met on 16 and 23 March 2017 to consider the annual review of the Abortion Supervisory Committee. We heard evidence from the Abortion Supervisory Committee and its legal counsel, 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

Jan Logie replaced Metiria Turei for this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Ministry of Justice, Briefing on the Abortion Supervisory Committee, received 13 March 2017.

Abortion Supervisory Committee, Responses to post-hearing questions, received 22 March 2017.
2015/16 Annual review of the Crown Law Office

Report of the Justice and Electoral Committee

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Crown Law Office

Recommendation
The Justice and Electoral Committee has conducted the annual review of the 2015/16 performance and current operations of the Crown Law Office, and recommends that the House take note of its report.

Introduction
The Crown Law Office (Crown Law) provides legal advice and representation to the Government on matters affecting the Executive Government. Crown Law is funded through Vote Attorney-General and has two main functions: to provide legal advice and representation to Ministers and government departments, and to provide support to the principal law officers of the Crown—the Attorney-General and the Solicitor-General.

Una Jagose QC is the Solicitor-General and the Chief Executive Officer of Crown Law.

We note that a Performance Improvement Framework (PIF) review of Crown Law is underway and was due to be completed in November 2016. However, because of the earthquake that month, the review has been postponed until 2017. Crown Law intends to use the output from the PIF results to update its statement of intent and four-year plan.

Financial position and audit opinion
In 2015/16 Crown Law’s total revenue was $60.436 million, an increase of $3.055 million from 2014/15. Its expenditure was $60.874 million, resulting in a net operating deficit of $438,000.

The auditors for the Office of the Auditor-General graded Crown Law’s management control environment and financial information and controls as “very good”. No recommendations were made for improvement in these fields. The auditors graded Crown Law’s performance information and associated systems and controls as “good”. We will be interested in following up on Crown Law’s response to the auditor’s recommendations for improvement in this area.

Workload and funding
We asked about the bulk-funding model, and whether the increase in funding for Crown prosecutions was sufficient to overcome workload pressures. We heard that the change to the bulk-funding model has been successful as it has allowed Crown Law to address and overcome internal pressure points. This has made a significant difference in Crown Law’s ability to provide high-quality and reliable Crown prosecutions.

Crown Solicitor Network and dividing Auckland warrants
We heard that Crown Law strives to maintain a mix of junior, intermediate, and senior prosecutors so it can assign more experienced prosecutors when needed. Crown Law also has access to a network of Crown Solicitors across New Zealand. The Crown Solicitor Network currently consists of 17 Crown Solicitor warrants, which are held by partners in private law firms throughout New Zealand. The network allows Crown Law to draw on
regional expertise in all High Court districts and provides information about Crown Solicitor workloads.

To reduce the Crown’s legal risk and improve the capability of the Crown Solicitor Network, the Auckland warrant has been divided into two, creating a separate warrant for Manukau. Notably, this division has received a large amount of positive feedback from stakeholders in both Auckland and Manukau.

**Responding to demand for increased services in Auckland**

The High Court in Auckland is the largest and busiest High Court in New Zealand. As the Criminal Appeal Division of the Court of Appeal also frequently sits in Auckland, a large amount of Crown legal work is Auckland-based. We heard that establishing a permanent Crown Law presence in Auckland has greatly reduced travel and accommodation costs associated with Wellington-based counsel travelling to Auckland at short notice.

Establishing an Auckland office has also allowed Crown Law to access a larger pool of candidates for roles, and ensures that the office employs a variety of experienced lawyers. As the Government is steadily growing in Auckland, establishing this office has given Crown Law easy access to its Auckland-based clients, and the ability to build stronger working relationships with them.

**Overseeing public prosecutions**

The Public Prosecutions Unit (PPU) oversees and supervises public prosecutions. PPU covers Crown prosecutions directly using Crown Solicitors. It also oversees non-Crown prosecutions that are conducted by the New Zealand Police, departments, and Crown entities.

The Public Prosecutions Reporting Framework (PPRF) is the principal mechanism used to provide the Solicitor-General with oversight of public prosecutions. Reports are produced monthly and yearly. Monthly reports focus on the type and cost of services provided to individual cases. Yearly reports provide statistical information about the structure and resources applied to the prosecution function.

We asked what Crown Law is doing to improve the transparency of the PPRF, and what work is underway to increase oversight of non-Crown prosecutions. Crown Law said it has identified agencies where guidance from the PPU will add value and improve the overall quality of prosecutions. It has been working with agencies to assess the prosecution function and is developing consistent prosecution policies.

Crown Law said it plans to continue speaking out about legal issues and the outcome of certain cases when appropriate. This will help to maintain public confidence in the justice sector and in Crown Law’s oversight function.

**Government Legal Network**

The Government Legal Network (GLN) is a collaboration of lawyers who work in government departments.

We heard that the Legal Risk Reporting System, introduced in 2014, is now well established. The system makes significant legal risk across the public service more visible and allows more informed decisions to be made about risk management and prevention. Crown Law said it is committed to working with other government departments to
pinpoint areas that need development and to further improve the quality of legal services across the public sector.

**Pacific Islands Law Officers’ Network**

The Pacific Islands Law Officers’ Network (PILON) is a network of senior law officers from Pacific Island countries. Crown Law is a member of PILON and aims to enhance the rule of law and assist legal systems in the Pacific through its litigation skills programmes.

We heard that Crown Law recently gathered several former judges and senior prosecutors to run an advanced litigation skills course for 16 Pacific nations. Such programmes provide opportunities for lawyers to develop expertise in court work. Crown Law plans to run more of these sessions and further solidify New Zealand’s relationship with other Pacific nations.
Appendix

Committee procedure
We met on 8 December 2016 and 16 March 2017 to consider the annual review of the Crown Law Office. We heard evidence from Crown Law 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.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Crown Law Office, Responses to standard questions, received 6 December 2016.
Crown Law Office, Responses to supplementary questions, received 31 January 2017.
# 2015/16 Annual review of the Department of Corrections

Report of the Law and Order Committee

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Department of Corrections

Recommendation

The Law and Order Committee has conducted the annual review of the 2015/16 performance and current operations of the Department of Corrections and recommends that the House take note of its report.

Introduction to the work of Corrections

The Department of Corrections manages offenders in the community and in prison, making sure that they comply with their sentences and orders imposed by the courts and the New Zealand Parole Board.

Corrections provides offenders with rehabilitation programmes, and education and job training, to help them stop re-offending.

Financial overview and service performance assessment

In 2015/16, Corrections’ total operating revenue was $1.294 billion, a 4 percent increase on 2014/15. Its total operating expenses were $1.297 billion, up 5.4 percent on the previous year. Corrections reported a net operating deficit of $2.2 million. This was the result of an unexpected shortfall in offender employment activity revenue.

Office of the Auditor-General: results of the annual audit

We were told that Corrections’ management control environment and its financial information systems and controls had been assessed as “very good”. Corrections strengthened its performance information and associated systems and controls, and this contributed to an improvement in its rating from “needs improvement” to “good”.

Corrections strengthened its controls by providing increased clarity and guidance to regional teams about recording service performance information, implementing the Corrections Attendance Register Engine for improved data collection in the regions, and introducing the Corrections Business Reporting and Analysis system.

Current capacity in New Zealand’s prisons

We asked about the current capacity in New Zealand’s prisons. We heard that there is flexibility to accommodate between 10,600 and 10,900 prisoners. Latent capacity also exists in prisons that have been closed but could be reopened.

The current and forecast prison muster

At the moment, the prison muster is between 10,100 and 10,200. The muster is forecast to reach 11,000 prisoners in the next eight or nine years, and this is regularly reviewed.

Looking at the last 25 years, the increase in the number of prisoners during the last two years has been unprecedented. The chief executive told us that it was hard to know when the prison muster would level off again.

Corrections said that, to accommodate increasing numbers of prisoners, capacity can be maximised by using latent capacity and double-bunking.
Effect of 880 more sworn police officers

We asked about the effect that 880 more sworn police officers during the next four years may have on prisoner numbers. We heard that, although there is no perfect model to determine this, Corrections has received an additional $64 million of operational funding to provide for another 400 prisoners.

Increasing capacity at prisons

We heard that, during the last two years, Corrections has accommodated 1,500 more prisoners. Spare capacity has made this possible, and the chief executive is confident that Corrections’ building programme to expand existing prisons and develop new facilities is keeping pace with capacity demands.

We discussed plans to increase the capacity of New Zealand’s prisons. The $300 million redevelopment at Pāremoremo will replace the oldest part of Auckland Prison (the maximum security facility) that accommodates 260 very high-risk and high-maintenance prisoners. The redevelopment will provide modern rehabilitation spaces for providing treatment, rather than having to transport prisoners to a mental health facility elsewhere.

Waikeria Prison will provide 1,500 more beds by 2021, and Mt Eden Corrections Facility will have 245 more beds available by 2019. Northland Region Corrections Facility will soon provide 80 more beds. By the end of 2017, Arohata Prison will have a new facility providing 60 additional beds. Hawke’s Bay Prison will also be able to accommodate 60 more prisoners.

The chief executive said the prisons would not overflow in the meantime, but he would like there to be more capacity than is currently available.

Double-bunking of prisoners

Corrections told us that about 30 percent of prisoners are now double-bunked, compared with 20 percent of prisoners in the past. However, we were told that New Zealand compares well with other jurisdictions. For example, 80 percent of prisoners double-bunk in South Australia, where dormitory-style accommodation is used to house up to 25 prisoners. Some of us believe that this is not an ideal situation. However, we are aware that it is necessary to accommodate the increasing prison muster. Some of us are also concerned that double-bunking is being used as a stop-gap measure before increased capacity comes on-stream.

The chief executive said that, when you increase the number of people in a cell, it is important to provide more staff and facilities to accommodate people safely. However, we are not aware that the physical space—yards, workshops, and mess facilities—has increased alongside the greater number of prisoners who are double-bunking—for example, at Northland Region Corrections Facility near Ngawha.

We suggested that this situation could increase stress levels and lead to longer lock-up times. We heard that the Corrections facility at Ngawha has the potential for more intensive use of its open spaces, and more staff and programmes are also being provided.

We discussed whether double-bunking causes problems for the 62 percent of prisoners who arrive in prison having experienced substance abuse or a mental health disorder in the previous 12 months. We heard that, although most people would prefer to have their own space, research shows that having someone to talk to can be a good thing. However, it is important to carefully match up prisoners who double-bunk.
Accommodating women in prison

There are currently three women’s prisons with a capacity of about 700 women. A new development at Arohata Prison will increase the total capacity to about 770 women, but there are no plans for a new women’s prison. There is room to expand further at Arohata Prison and Christchurch Women’s Prison if necessary, and the decommissioned prison at Rimutaka can also be used if needed.

We discussed the issues behind the large number of women prisoners. These issues include violent offending, access to drugs, and relationships with gangs. On their release, women are often quite vulnerable to the associations they have and the men with whom they are involved. The chief executive said that more support services and supported accommodation are needed to stop women from returning to prison.

Provision of mental health services to prisoners

Along with the 62 percent of prisoners who had some form of mental health or substance abuse disorder in the 12 months before their arrival, about 90 percent of prisoners will have a mental health issue in their lifetime (including alcohol and drug addictions).

In June 2016, the Minister of Corrections announced that Corrections would receive close to $14 million to spend on mental health services for prisoners. This money will provide about 40 mental health professionals to work in New Zealand’s prisons. It is expected that these people will increase frontline corrections officers’ understanding of mental health and addiction issues. The funding will also provide for four social workers and four counsellors in the women’s prisons.

The mental health professionals will be supported by four community-based services in South Auckland, Hamilton, Palmerston North, and Dunedin. We asked about the relationship between the Henry Rongamau Bennett Centre at Waikato Hospital, and Waikeria Prison. We were told that the relationship between the two organisations is good and that the centre at Waikato Hospital will also accommodate prisoners.

We asked how many prisoners have been assessed as high needs and were told that 625 prisoners (30.9 percent) met the threshold for treatment and support by Forensic Services (indicating a serious mental illness).

Of the 14,000 prisoners who are incarcerated for six months or longer, only around 50 percent of those are assessed for mental health issues. Some of us are concerned that a significant number of prisoners are not getting the treatment they need to deal with their mental health or additional issues. Some of us are concerned that another consequence of a lack of mental health services within prisons is the risk this poses to staff who may not be equipped to deal with prisoners with mental health issues.

Considering the high number of prisoners with mental health issues, we asked whether 40 mental health professionals can make a difference. We heard that their focus is to be on longer-term prisoners. Of the around 10,100 prisoners, 70 percent are in prison for six months or longer, and 30 percent are there for less than six months.

The funding has been provided for two years, after which the initiative will be evaluated. If the results are positive, long-term funding will be sought.
Pressure on the wider mental health system

We asked whether prisons function as “ambulances at the bottom of the cliff” because of a lack of mental health services in the community. The chief executive said that the pressure on the wider mental health system has been acknowledged.

The Ministry of Health has recently published the Mental Health and Addiction Workforce Action Plan 2017 to 2021 to improve outcomes for people with mental health and addiction issues. Corrections supports increasing the provision of mental health services in the community. However, the challenge is that many prisoners do not seek out mental health services and would be unlikely to find their way to treatment voluntarily.

At-risk units in prisons

In 2016, 3,000 prisoners spent time in an at-risk unit. These prisoners are at risk of committing self-harm, suicide, or other extreme behaviour. The units are heavily staffed and supported by multidisciplinary teams.

We heard that fewer than 10 of the people in at-risk units end up being restrained to stop extreme situations from escalating. The provision of mental health services inside prisons is designed to stop the behaviour involved from recurring.

Assaults on prisoners and staff

In the last two years, there were more than 1,500 serious and non-serious assaults on prisoners and staff. Serious assaults involve punching or hitting that requires hospitalisation and further care, while non-serious assaults can involve touching, shoving, or verbal abuse.

We asked whether the considerable prison population growth in the last two years has been a factor in the number of assaults. We heard that higher prisoner numbers are partly responsible but that numbers of assaults can ebb and flow irrespective of the population. In New Zealand, one-on-one situations between prisoners can quickly escalate compared to overseas, where violence is often much more planned and organised.

On-body cameras are now being used. They de-escalate situations well, while being fairly non-confrontational.

The chief executive said that there has been one homicide during his six years with Corrections. This was a death as a result of a serious assault. Having well-maintained facilities and standards, and enough staff, are critical to maintaining safety in prisons.

Education and training for prisoners

We discussed the education and training that is provided to prisoners to enhance their employment opportunities when they are released. A large amount of the training is organised through the Tertiary Education Commission and delivered by tertiary education providers. For example, WelTec (Wellington Institute of Technology) provides training at Rimutaka Prison in painting, plastering, bricklaying, metal work, and carpentry, for which the participants receive recognised industry-based qualifications.

In January 2017, 46 men and women gained jobs on their release from prison that were related to the qualifications they had received while inside.

Although the amount of funding has not changed, work has been done to reorganise some of the custodial rehabilitation programmes that Corrections delivers. The aim is to get
more people participating. Some of the programmes were very long and expensive, and Corrections has seen good outcomes from the shorter programmes.

The chief executive is pleased that the number of prisoners gaining qualifications has risen by 25 percent.

**Spending on prisons versus drivers of crime**

Some of us asked why large amounts of money are being spent on keeping more people in prison, rather than spending more on keeping people out by addressing the drivers of crime. We heard that the challenge is how you direct more spending to keeping people out of prison, when there are increasing numbers of people who need to be accommodated in prisons.

The chief executive said that investment six years ago in youth offending by Child, Youth and Family appears to have resulted in fewer young people in prison. However, more older people are now being imprisoned for drug offences and domestic violence.

The high remand population resulting from arrests for breaches of protection orders and domestic violence also increases the prison population. Prisoners on remand make up 30 percent of the prison population.

We heard that various courts throughout the country—in particular, those in Auckland and Christchurch—are under pressure with large numbers of people going through quite involved prosecution processes. In the past, a lot of these people would have been bailed but now must be held in custody.

**Housing people when they leave prison**

We discussed how people are housed when they leave prison and that having decent accommodation dramatically reduces the likelihood of offending. Some of us suggested providing halfway houses like Canada does.

Corrections considers that accommodation is an important issue. However, it is aware that not a lot of communities want halfway houses, and housing people individually in supported accommodation is probably more sensible. Corrections provides 900 supported accommodation places for people on release from prison, and it is working with the Ministry of Social Development to consider making more places available.

**Staff recruitment decisions**

The chief executive told us that Corrections is currently recruiting large numbers of people—by the middle of April 2017, there will be 400 new Corrections staff. To supplement the New Zealand recruits, 83 people from the United Kingdom will join the organisation.

We heard that there are people with corrections backgrounds who choose to live overseas and continue working in the field. They need less training than new recruits, which means they can quickly become active members of staff. The prison directors in New Zealand who have worked in the UK bring considerable experience from running large prisons over there. Corrections has also recruited some Australians (mainly from Western Australia) and returning New Zealanders.

Corrections is also seeking to increase its Māori and Pacific staff—currently, Māori make up 21 percent of the organisation’s employees. We heard that the recruitment campaign has been very successful, with hundreds of people interested in working at Corrections.
We asked why, in the year to June 2016, Corrections reduced its staff by 180 people but is now seeking to employ 800 staff by September 2017. The chief executive explained that, when the decision to reduce staff numbers was made, the prison population was as low as 8,500 people and had been flat or falling for three-and-a-half years. Prisoner numbers then started to rise unexpectedly and kept increasing.

The chief executive said he does not think anyone could have reasonably forecast the accelerated increase in prisoners that has driven the need for more staff. The rise to 10,200 prisoners has mostly occurred in the last 24 months and accelerated in the last six months.

We heard that a lot of the staff affected by the earlier decision to reduce staff numbers were redeployed, while many took enhanced early retirement.

**Initial and ongoing staff training**

We asked whether New Zealand’s initial training for corrections officers of about 16 weeks represents an under-investment in the initial training of staff, considering that, for example, Norway has a two-year training programme for prison officers.

The chief executive said the corrections officer development training extends beyond the initial period to cover most of a year. He said it is important to keep on training people, including providing refresher training.

**Calculation of release dates**

We asked the chief executive whether he is confident that Corrections is now calculating release dates correctly, after the Supreme Court ruling in September 2016. This decision found that all periods of detention must be taken into account, from the time of arrest on any charge until an offender is sentenced to jail.

The chief executive said that the dates are now being calculated according to this court ruling. Previously, Corrections was correctly following the Court of Appeal rulings.

The process to recalculate dates is nearly finished, and one compensation claim is currently before the courts.
Appendix

Committee procedure

We met on 8 February and 15 March 2017 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)
Maureen Pugh
Mahesh Bindra
David Clendon
Ian Mc Kelvie
Stuart Nash
Lindsay Tisch
Aupito William Sio
Jonathan Young

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Department of Corrections, dated 8 February 2017.

Department of Corrections, responses to questions 1-261, and responses to supplementary questions, received on 3 February 2017.
2015/16 Annual review of the Electoral Commission

Report of the Justice and Electoral Committee

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Electoral Commission

Recommendation
The Justice and Electoral Committee has conducted the annual review of the 2015/16 performance and current operations of the Electoral Commission, and recommends that the House take note of its report.

Introduction: background to the Electoral Commission
The Electoral Commission is an independent Crown entity responsible for administering parliamentary elections and referenda. It does not have a responsible Minister, and is managed by a board. The Chief Electoral Officer sits on the commission’s board, and is also the chief executive of the commission.

The commission welcomed a new Chief Electoral Officer, Alicia Wright, in January 2017. It also trebled its number of permanent staff, after resuming in-house responsibility for enrolment services, which had been contracted to New Zealand Post.

Financial performance
In 2015/16 the commission had total revenue of $32.304 million, and ended the financial year with a $1.058 million deficit. This compares to a $5.837 million deficit in 2014/15.

The majority of the commission’s revenue comes from the Crown, and varies from year to year depending on where New Zealand is in its electoral cycle. The commission’s forecast revenue for the next three years is $111.819 million. The commission expects two deficits and one surplus over this time, resulting in a $2.262 million deficit overall. We note that the Auditor-General commented in his advice to us that “given the proximity of the general election and the transition to a new chief executive, on-going focus and vigilance will be required to ensure the maintenance of controls”.

Changes in how the commission administers elections
In 2015/16, the commission undertook two major projects to enhance its administration of New Zealand’s elections: redeveloping the Electoral Management System; and taking back enrolment services from New Zealand Post. These projects were both completed at the end of 2015/16. We plan to follow up with the commission in the coming year to find out the projects’ results.

Redeveloping the Electoral Management System
The Electoral Management System (EMS) is the core software system that the commission uses to manage the administration of New Zealand’s elections. In 2015/16, the commission redeveloped the system. The redevelopment updated the EMS to a more modern platform with improved security. The project was completed in September 2016, and the new system was used for the Mt Roskill and Mt Albert by-elections.

We sought advice about whether security concerns had influenced the commission’s decision to update the EMS. The Office of the Controller and Auditor-General (OAG) told us that it was not unduly concerned about the previous security level. However, the redeveloped EMS is less vulnerable to security and maintenance risks. We heard that the
OAG’s Information Systems Auditor has been engaged to evaluate the new system. This audit will include security.

We also asked the commission what steps it has taken to ensure that the new EMS is secure. It said it has adopted all the security recommendations set out by the Government Chief Information Officer, and follows the digital security standard provided by the Government Communications Security Bureau. It has also penetration-tested all its key applications, including the enrolment and electoral event management systems.

In light of these precautions, we are satisfied that the commission and the OAG are monitoring the ongoing security of the new system. We note that a full project evaluation will be carried out after the completed system is signed off by its steering committee. This is expected to be in May 2017.

**Taking back enrolment services from New Zealand Post**

In October 2015, the commission ended its contract with NZ Post for the delivery of enrolment services and brought these responsibilities back in-house. This means that, for the first time since 1981, all aspects of New Zealand’s parliamentary electoral administration are conducted by the commission.

The commission introduced a new structure in July 2016 to support this change. Most enrolment services staff chose to transfer from NZ Post to the commission, which saw the commission’s staffing increase from 30 to 100 permanent positions.

The commission emphasised to us that the change was internally driven. It felt that by bringing the services in-house it could provide better service to its customers. It added that it expects to recover the cost of the integration because it will no longer have to pay NZ Post for providing enrolment services.

We asked whether the change has produced the expected benefits, such as freeing up staff and resources for other priorities. We heard that it is too soon to be certain; however, the initial indications are promising. The commission emphasised that the key benefit of the transition is being able to provide an integrated service to New Zealanders—for instance, incorporating enrolment services into advance-voting places.

**Incongruity between current campaigning rules and advance voting**

Advance voting is an increasingly popular system in New Zealand’s elections. The commission has been administering these advance votes, and has identified an issue with New Zealand’s current advance voting system.

The commission told us that the current restrictions on campaigning are incongruous in the context of advance voting. If advance voting is as popular as expected during the next general election, approximately half of all votes will be cast while campaigning is still permitted. However, current restrictions seek to shield votes cast on election day from the influence of campaigning.

We will watch with interest how the commission manages this anomaly.

**Improving New Zealand’s voter participation**

The commission’s vision is that “New Zealanders trust, value, and take part in parliamentary elections”. As a result, one of its focuses for 2015/16 was improving participation in New Zealand’s democracy. However, the commission did not meet its
participation target for 2015/16. This goal was to facilitate participation in parliamentary elections by:

- ensuring that 92.6–93.5 percent of eligible New Zealanders are enrolled to vote
- ensuring that 76.5–80 percent of 18–24 year olds are enrolled to vote.

In 2015/16, 90.16 percent of eligible New Zealanders and 67.72 percent of 18–24 year olds were enrolled to vote.

We asked the commission to tell us about its target, why it did not meet it, and what it is planning to do differently to meet its targets for the coming election year.

We heard that the commission’s participation targets are “deliberately ambitious”. It agrees that it has a responsibility to lead in this space, and that it needs to investigate what more it can do to achieve its goals. We discussed various initiatives that the commission uses to encourage voter participation.

**Increasing the commission’s youth engagement**

We are particularly concerned about the low participation rate—only two thirds—for 18–24 year olds. As we observed in our July 2016 report on our inquiry into the 2014 general election, it appears that “enrolment and voting is a habit that is formed early and persists as one ages”. We were therefore very interested to find out what the commission is doing to improve youth engagement.

The commission has identified social media as an area where it could engage more usefully with younger demographics. It did, however, note that using social media to encourage election participation could present challenges relating to New Zealand’s current campaigning rules.

The commission indicated that the inconsistencies in current campaigning restrictions limit the effectiveness of social media as an engagement tool. For instance, on election day, social media posts saying “I’ve voted” are acceptable, but posts saying “I’ve voted for X” are not.

We consider that allowing individuals to speak more freely about voting on social media (and other forums) could help engage young voters on election day. The commission indicated that this could be particularly valuable in the case of popular public figures and large online communities.

The commission is also involved in partnerships with groups that are already engaged with youth, such as schools, universities, churches, and markets. We support this, particularly the work the commission does to support civics education in schools. Successful examples of this work include the “Kids Voting” and “Your Voice, Your Choice” programmes. The commission told us that a key barrier to working with schools is getting time in the already busy curriculum, particularly with 17 and 18 year old students.

Although we find this engagement encouraging, we raised concerns about young people who are not engaged in education, employment, or training. We asked whether the commission has reached out to this group.

The commission agreed that this group makes up a significant portion of unenrolled youth. It has been working with community groups and government agencies to start addressing

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this issue. It noted that many of the group are from Pacific Island communities. The commission believes a community approach is essential. It is also in the early stages of developing a wrap-around solution with government agencies such as Te Puni Kōkiri, the Ministry of Social Development, and the Tertiary Education Commission.

We strongly encourage the commission to continue pursuing a cohesive solution with government agencies, particularly to find ways to engage with the most disengaged groups.

**Advance voting places**

For the 2017 general election, the commission plans to add approximately 100 new advance voting places, taking the national total to around 450. This is in response to a significant increase in advance voting in recent years. The commission expects that advance voting will make up about half of the votes in the 2017 general election.

The commission uses extensive criteria in deciding where to locate its advance voting places. We heard that it can be more difficult to arrange advance voting places than regular voting places. This is because advance voting places are set up for longer, but not for long enough to be attractive for a commercial landlord. Furthermore, advance voting places have to be located somewhere with high foot traffic, rather than in more remote places like school or community halls.

The commission has not confirmed where its advance voting places will be for the 2017 general election. We are very interested to see how these places will be distributed. The commission has advised us that a draft list will be released for consultation in July 2017.

We were concerned that in the 2014 general election some people voted and were then told that they were not enrolled. This meant that their votes were not counted. We are therefore very pleased that the commission is embedding an enrolment service in all of its new advance voting places. This service will allow unenrolled New Zealanders to enrol on the spot and then vote. We note that this service will not be available on election day, but are nonetheless pleased that it will make it easier for New Zealanders to participate in elections.
Appendix

Committee procedure
We met on 16 February and 23 March 2017 to consider the annual review of the Electoral Commission. We heard evidence from the commission 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

Jenny Salesa participated in this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Electoral Commission, Responses to standard questions 1–102, received 12 December 2016.

Electoral Commission, Responses to supplementary questions 103–107, received 14 March 2017.
# 2015/16 Annual review of the Human Rights Commission

Report of the Justice and Electoral Committee

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Human Rights Commission

Recommendation
The Justice and Electoral Committee has conducted the annual review of the 2015/16 performance and current operations of the Human Rights Commission, and recommends that the House take note of its report.

About the Human Rights Commission
The Human Rights Commission is an independent Crown entity created to protect, promote, and monitor respect for human rights in New Zealand. It is funded through Vote Justice. The commission is governed by a board. The chief commissioner chairs the board and all the commissioners are members. There are currently three full-time commissioners and three part-time commissioners. They are supported by a staff of 40 full-time and 10 part-time employees.

Financial performance
In 2015/16 the commission received total revenue of $9.890 million, and its total expenses were $9.404 million. This resulted in a surplus of $486,000, compared with a deficit of $24,000 in 2014/15.

We were advised that the commission intends to use its accumulated funds to fund expected deficits over the next four years.

Retaining the commission’s “A” status as a National Human Rights Institution
We are pleased that the Human Rights Commission successfully maintained its “A” status accreditation as a National Human Rights Institution. Retaining this accreditation was one of the commission’s key goals for 2015/16.

The “A” status is granted by the Global Alliance of National Human Rights Institutions. It gives the commission the right to speak at the United Nations (UN), and to have written statements included in the official record of UN meetings. We note that the commission will have to apply to renew its accreditation in five years.

Progressing the United Nations Sustainable Development Goals
In September 2015, New Zealand committed to adopting the UN’s 17 Sustainable Development Goals (SDGs). The first of these goals broadly aims to halve global poverty by 2030.1 We note that, in late 2016, the commission launched its “child poverty monitor” and called for urgent action on New Zealand’s high child poverty rate. We are interested in what else the commission is doing to help New Zealand achieve the SDGs.

We heard that the chief commissioner was involved in developing the Mérida Declaration. The declaration describes the roles of National Human Rights Institutions in achieving the

SDGs by 2030. The chief commissioner emphasised to us that the SDGs are human rights goals, and as such the commission is actively involved in several areas.

**Using data to define New Zealand’s progress towards human rights goals**

We asked the commission whether it is helping New Zealand to create domestic definitions for measuring human rights compliance. Agreeing these national definitions is a requirement of the SDG agenda.

The commission told us that it is working with Data Futures Partnership to develop a strategy for measuring New Zealand’s SDG indicators. The commission is pleased that the governments of the world have agreed to specific, measurable human rights goals such as the SDGs, because they allow the commission to embrace a data-focused approach to measuring New Zealand’s progress.

The commission told us that a group of government agencies is working on forming definitions for issues such as poverty. While the commission is not a member of the group, it meets with it to offer support. We heard that the commission is also encouraging a similar non-governmental group to form, because it recognises that civil organisations have access to valuable data.

We support the commission continuing its work in this important area.

**Engaging with under-represented communities**

We were interested to hear how the commission aligns the number of complaints it receives with the reality of human rights issues in New Zealand. We asked what it is doing to encourage under-represented groups—such as Pacific communities—to engage with it. We heard that housing issues such as overcrowding are over-represented in Pacific communities, yet the commission has not received complaints to reflect this.

The commission told us it reviewed its digital strategy and recognised an opportunity to engage with more New Zealanders. It implemented a social media campaign that has reached over 3.5 million people, and redeveloped its website to create a more interactive and user-friendly platform. The commission’s chief executive felt it was a cost-effective and successful project that has improved the commission’s understanding of what is important to the New Zealand public.

The commission acknowledged that some groups may be unaware of what the commission is and what it can do for them, particularly in regard to the complaints process. We heard that it plans to devote more resources to targeting under-represented groups. We look forward to hearing more about these projects in the future.

**Strengthening the private sector’s interest in human rights**

In the 2015/16 financial year, the commission increased its focus on the relationship between businesses and human rights. We asked why it had chosen to focus on the private sector, rather than other groups such as local communities.

The commission told us that although it engages heavily with communities and Government, it observed that it was not engaging with businesses to the same extent. Since the SDG agenda requires Government, businesses, and non-governmental organisations to cooperate, the commission felt it was appropriate to increase its engagement with the private sector. To further this, it has engaged in partnerships with the New Zealand
Superannuation Fund and other major corporations, and is working with two business-led
groups on procurement and family violence issues in the private sector.

We were pleased to hear from the commission that the response from businesses has been
overwhelmingly positive. The commission observed that businesses are happy to share
their policies and experiences in human rights, and are already aware of issues such as equal
pay, low wages, slave labour, diversity, participation, and family violence. We look forward
to more positive developments in this area.

Implementing the Human Rights Amendment Act 2016

In June 2016, the Human Rights Amendment Act 2016 came into effect. The amendments
in this Act included the introduction of a full-time Disability Rights Commissioner, and
changes to the role and structure of the commission. We were interested to hear how the
commission plans to adapt to these changes.

The commission is recommending that the Minister of Justice appoint two new
commissioners: a mandatory full-time Disability Rights Commissioner, and an Indigenous
Human Rights Commissioner. The three part-time commissioners are expected to resign
after the two new commissioners are appointed. This would bring the commission to a
complement of five full-time commissioners (the maximum allowed in the Act).

We asked whether specific commissioners will be given responsibility for issues such as
LGBTQI+ rights. The commission is certain that it will designate this responsibility to a
commissioner. The designations will be made by the chief commissioner, and will depend
on each commissioner’s personal experience and profile, as well as the strategic direction
and general activities of the commission.

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We use the acronym “LGBTQI+” as this is the preferred term used by the Human Rights Commission. The
commission defines the “LGBTQI+” community as including people who identify as takataapui, lesbian, gay,
bisexual, queer, heterosexual, intersex, female, male, transgender, whakawahine, tangata ira tane, mahu
(Tahiti and Hawaii), vakasalewalewa (Fiji), palopa (Papua New Guinea), fa’afafine (Samoa, America Samoa and
Tokelau), akava’ine (Cook Islands), fakaleiti or leiti (the Kingdom of Tonga), or fakafifine (Niue).
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Committee procedure
We met on 9 February and 16 March 2017 to consider the annual review of the Human Rights Commission. We heard evidence from the Human Rights Commission and received advice from the Office of the Auditor-General.

Committee members
Sarah Dowie (chairperson)
Jacinda Ardern
Chris Bishop
Paul Foster-Bell
Marama Fox
Jono Naylor
Denis O’Rourke
Maureen Pugh
Metiria Turei
Louisa Wall

Marama Davidson participated in the consideration of this item of business.

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Human Rights Commission, Responses to standard questions, received 6 December 2016.
Human Rights Commission, Responses to supplementary questions 103 and 105–107, received 28 February 2017.
Human Rights Commission, Response to supplementary question 104, received 28 February 2017.
Human Rights Commission, Appendix 1 to supplementary question 103, received 28 February 2017.
2015/16 Annual review of the Independent Police Conduct Authority

Report of the Law and Order Select Committee

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Recommendation

The Law and Order Committee has conducted the annual review of the 2015/16 performance and current operations of the Independent Police Conduct Authority, and recommends that the House take note of its report.

About the Independent Police Conduct Authority

The Independent Police Conduct Authority (the authority) is an independent Crown entity. Its statutory functions are:

- to receive and act on complaints that allege misconduct or neglect of duty by any Police employee, or concerning any Police practice, policy, or procedure
- to investigate incidents involving death or serious harm caused, or apparently caused, by a Police employee acting in the course of their duty, where the authority is satisfied it is in the public interest to do so.

The authority employed 25 staff as of June 2016. It is governed by a board that reports to the Minister of Justice. The chair is Judge Sir David Carruthers. The general manager is Dr Warren Young.

We note that the chair’s five-year term concludes in 2017. We thank him for his excellent service to the authority, and wish him well in his retirement.

Financial and service performance

In 2015/16, the authority received total revenue of $3.856 million, about $5,000 more than the previous year. Its total expenditure was $3.622 million, resulting in a surplus of $233,608. This compares with a $7,546 deficit in 2014/15.

The authority explained that while it had operated in deficit for the past four financial years, it received assistance in the last Budget so that it did not have to turn away any cases that it assessed as requiring investigation. The chair added that the authority still had to operate very carefully as it was still in a tight financial situation, but it was managing within its budget and trying to build its reserves.

Annual audit results

The Auditor-General issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the authority. He assessed and graded the authority’s management control environment and financial information systems and controls as “very good”, with no recommendations for improvement.

The auditor graded the authority’s performance information and associated systems and controls as “good”, recommending some improvements. This rating was the same as in the previous year. Recommendations from 2014/15 had been implemented in part.
**Reporting**

The authority published 21 independent reports in 2015/16. The chair explained that this was fewer than the previous year, primarily because in 2014/15 it had been catching up on a backlog of reports.

The authority did not meet all of its targets for the timeliness of investigations in 2015/16. The chair said it was now taking a team approach to investigations, to improve their timeliness. He noted that factors outside the authority’s control can affect timeliness, such as prolonged court proceedings.

We heard that the authority was working hard to strengthen the accuracy, thoroughness, fairness, and timeliness of its investigations. The chair assured us that all current cases were “under firm control”.

We heard that the complexity of cases has increased, but the authority’s reporting systems are not capable of analysing such trends. It is starting work on improving its case management system, so it can do better at analysing data and reporting on trends in complaints.

**Number and nature of complaints**

We noted that the authority received fewer complaints in 2015/16 (2,441, compared with 2,515 the previous year), of which it declined more than half. We asked whether this was a result of the public not understanding the function of the service.

The authority said it takes a proactive approach to public engagement, including with vulnerable communities. The authority receives a huge range of complaints, including many that do not meet the criteria for investigation, such as dissatisfaction with the outcome of court cases. The authority is also unable to resolve cases where reports by the complainant and the Police are conflicting and there are no independent witnesses.

We also noted the high number of “category 4” complaints: those resolved by mutual agreement between the Police and the complainant. The authority saw this as a positive indication that complaints can be resolved effectively and to the satisfaction of the parties, without the need for formal investigation. It said it is working with the Police to shift its focus toward what can be done to resolve a grievance, rather than who is right or wrong in a situation.

**Development of an early resolution process**

The authority has completed work on developing a model early resolution process using the Government Centre for Dispute Resolution and the Ministry of Business, Innovation and Employment. The model had been trialled in three police districts. The model has the potential to generate significant savings for both the authority and the Police, by avoiding lengthy and detailed investigations when they are not necessary.

The authority told us that the three pilot programmes are currently under evaluation, but it is satisfied with the benefits, both for complainants and the Police, from the new way of working. Key features of the process had been extended to all police districts in January 2017, with the programme set for full roll-out from 1 July 2017.

We welcome the progress made by the authority and the Police in implementing this new initiative, and look forward to the authority’s reporting on its effectiveness in future years.
Power to Initiate Inquiries

We observed that the authority does not have the power to initiate “own motion” investigations. The chair of the authority sees this as a weakness. He said that if the authority had such a power it would be used very sparingly: only for high-level matters where investigation by the authority was clearly in the public interest. In such cases he believes it would be appropriate for the authority to be able to initiate an inquiry. Such a power is held by comparable organisations in other jurisdictions.

We support giving the authority the power to initiate investigations on its own motion, and encourage the Government to consider such a reform. We believe that it would enable the authority to make more proactive and effective use of its significant expertise and unique role, in the public interest. We note that this would not extend to a power to mount prosecutions.

Recommendations accepted and implemented by the Police

The chair acknowledged the excellent professional relationship between the authority and the New Zealand Police, within the bounds of the authority’s independent role. The authority noted that 92 percent of its recommendations had been accepted by the Police, which was more than the forecast 90 percent.

The chair said the authority had increasingly been called upon to analyse and consider aspects of police operational policy. He appreciated that this gave the authority an opportunity to concentrate on prevention rather than blame.

He gave the example of the authority’s examination of fleeing driver pursuits. It is negotiating terms of reference with the Police for this initiative. The chair explained why it is important that this review be done jointly with the Police. For example, successful pursuits of fleeing drivers, where there are no tragedies, are not reported to the authority, so it does not get a balanced view of the situation. We were assured that the joint approach would not compromise the authority’s independence.

Police shootings

The authority observed that there had been a number of police shootings throughout the year, some with fatal results. It was unable to report in detail because criminal trials are under way, but said it will report independently on each fatal case (and some others) once the trials are complete.

Detention in police and court cells

The authority continues to take an active interest in the appropriate use of police and court cells, including the use of police cells as a “spill-over” in response to pressure on prison facilities. It has entered into agreements with the Police and the Ministry of Justice to ensure steady and planned improvements to cells and their use country-wide. It also continues to monitor these issues in conjunction with the appropriate human rights bodies.

The authority highlighted a particular concern about young people being detained in police and court cells, due to a lack of other appropriate facilities for their detention. The authority is working with the Police, the Principal Youth Court Judge, and the Children’s Commissioner to identify problems and take appropriate action.
Mental health

We asked whether there is a correlation between mental health problems and complaints about police conduct. The authority said there is little reporting on these issues. It believes that the Police need to be more skilled in dealing with mental health issues, but told us that there had been huge strides in training for police. At the same time, it said that working with people suffering mental health issues should not be primarily the responsibility of the Police. There was only so much it could do.

The authority also sees a need for better coordinated and more comprehensive mental health services between the Police and the Ministry of Health. We support the authority in this view. We heard that the authority had worked directly with both agencies in 2015/16 to achieve better results in this area. The authority expressed concern over the number of mental health assessments taking place in police cells, but was pleased to report that those numbers had reduced in most districts. Nevertheless, a lot of work remains to be done.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 to consider the annual review of the Independent Police Conduct Authority. We heard evidence from the authority and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Maureen Pugh
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Aupito William Sio
Lindsay Tisch
Jonathan Young

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Independent Police Conduct Authority, Responses to questions, received 9 January and 3 March 2017.
The Justice and Electoral Committee has conducted the annual reviews of the 2015/16 performance and current operations of the Parliamentary Counsel Office and the Law Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Sarah Dowie
Chairperson
2015/16 Annual review of the Ministry of Justice

Report of the Justice and Electoral Committee

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Ministry of Justice

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2015/16 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 administrating the court system, providing policy advice on the law, collecting court-ordered fines and reparations, and negotiating Treaty of Waitangi settlements.

The ministry’s aim is to provide modern, accessible, people-centred justice services that deliver better outcomes for New Zealanders. The ministry works to three outcomes: safer communities, increased trust in the justice system, and continued integrity of our constitutional arrangements.

Andrew Bridgman is the Secretary for Justice and the chief executive of the ministry.

Financial position

In 2015/16, the ministry’s total operating revenue was $578.570 million. Its total operating expenses were $567.994 million (2 percent more than in the previous year), resulting in a net surplus of $10.576 million.

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

The OAG highlighted two issues arising from its audit. The first is a continued need for the ministry to strengthen its management of programmes and projects, and to address potential risks where projects are subject to significant re-scoping. The second issue is the revaluation and write-down of the value of the Manukau District Court, which was reduced by $19.6 million. While the OAG is satisfied with the final valuation, it has recommended that the ministry review its assessment of the value of “work in progress” more regularly to identify any potential impairments, and to limit write-downs of this magnitude in future. We will continue to monitor these issues, and the OAG’s continued audit work of the ministry, with interest.

Family violence

As part of its goal to reduce crime, victimisation, and harm, the ministry has made addressing family violence a top priority. A package of reforms was announced in September 2016, which will include a broad overhaul of family violence legislation.

One means of protecting victims from family violence is a protection order, which is a court order protecting victims of family violence from their abuser. We are aware that the current application process involves a lot of paperwork. This can be intimidating for the already vulnerable victims of family violence. We asked how the ministry plans to ensure that the application process for protection orders is more accessible. The chief executive
said that the package of family violence reforms includes overhauling the entire process. The end result should ensure prompt protection for the victim, and an application process that is fair and robust for all involved parties.

We asked for further information about research on family violence and sexual violence against men. The ministry’s response referred to the New Zealand Crime and Safety Survey, conducted in 2013.¹ The survey found that 4 percent of men in 2012 were the victim of a violent interpersonal offence by an intimate partner, 0.5 percent experienced one or more sexual offences by an intimate partner, and 5.6 percent experienced one or more incidents of sexual violence at some point during their lives. We heard that there is still a very low reporting rate for crimes of this nature committed against both men and women. The ministry is working to increase the number of services available to victims to help them safely report such crimes.

**Legal aid**

Legal aid, which is a government-funded legal service for those who cannot afford to pay for a lawyer, is critical in ensuring that all New Zealanders have access to justice. The ministry funds the Public Defence Service, which is New Zealand’s largest provider of criminal legal aid. Private law firms also provide legal aid services.

Although the number of legal aid providers has ostensibly remained the same, the number of lawyers offering legal aid services has decreased since reforms in 2011 introduced a fixed fee payment for criminal legal aid. The ministry said that the level of the fee was intended to match the amount of work involved in successfully trying a case. However, there would always be a tension between the funding available and the requirement to provide access to justice. It emphasised that no-one who qualifies for legal aid will be denied it because of the level of demand on the appropriation.

In 2014/15, the audit report on the Legal Aid Provider Services found that 85 percent of legal aid lawyers received a rating of acceptable or above.² Although this demonstrates that the majority of lawyers meet the standard, we are concerned about the 15 percent that do not. Given these results, we asked about the overall adequacy of the current legal aid system. The chief executive expressed confidence in New Zealand’s legal aid system, and relayed positive anecdotal evidence from the judiciary about the Public Defence Service. We heard that work is ongoing to ensure that legal aid is as accessible as possible, including plans to seek more funding in Budget 2017.

**Modernising the courts**

The ministry has prioritised reducing the time it takes to hear and resolve matters in the courts. Its aspirational goals include halving the time taken to deliver its services by 2018, and resolving all serious harm cases within 12 months. Part of the modernisation project involves upgrading properties and facilities, such as the Manukau District Court and the Christchurch Justice and Emergency Services Precinct.

We asked about progress in building the Christchurch Justice and Emergency Services Precinct. The chief executive said that the project was on time, and the precinct is due to open on 1 July 2017. He emphasised the benefits of co-locating all the justice services in

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one area, which should improve accessibility and convenience. It will also allow court staff to have more exposure to different areas of the courts in their daily work.

We asked if the modernisation project had been considered in light of Te Ture Whenua Māori Bill, which is due to be passed into law in 2017. The bill would introduce broad changes to the jurisdiction of the Māori Land Court, establishing a new Māori Land Service to take on some of the functions carried out by the Māori Land Court.

The chief executive said that regardless of the outcome of the bill, restructuring the Māori Land Court is necessary to streamline management systems across all the courts in New Zealand. He acknowledged that the Māori Land Court has done an exemplary job over the last three years in reducing the time taken to resolve its cases.

The committee was concerned that restructuring the court system, including the Māori Land Court, may result in significant job losses and the consequential loss of institutional knowledge. The ministry acknowledged the importance of retaining institutional knowledge, and said it is investigating the best way to ensure this happens. The chief executive expressed confidence in the experience and knowledge of the remaining staff.

We understand that, as part of the Māori Land Service programme led by the Ministry of Māori Development, Cabinet has agreed to make $3.2 million available for remediation activity by the ministry. This will include remediation of the electronic copy of the Māori Land Court’s historical records.

Alcohol and Other Drug Treatment Court

The Alcohol and Other Drug Treatment Court, which sits at the Auckland and Waitakere District Courts, is a pilot scheme that began in November 2012 and is being trialled for five years. 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.

We visited the Auckland Alcohol and Other Drug Treatment Court in 2016, and were extremely impressed with the court’s work.

We asked what the next steps are for evaluating the pilot’s successes, and whether there is potential to begin a further pilot in a rural or provincial area before the trial period for the current courts finishes. Although the ministry was positive about the progress so far, it will wait until analysis of the effect on recidivism rates has been completed. This is expected in the first quarter of 2017. Then the ministry will be able to determine future steps, including whether the pilot can be extended to other areas of New Zealand.

Rangatahi Courts and Pasifika Courts

There are 14 Rangatahi Courts around New Zealand, and two Pasifika Courts in Auckland. Both operate in the same way as the Youth Court, but Rangatahi Courts are held on marae and follow Māori cultural processes, while Pasifika Courts are held in Pasifika churches or community centres and follow Pasifika cultural processes. Although the courts support tikanga Māori and Pacific Island cultures, they are not exclusive to Māori and Pacific Island youth.

We note that the Rangatahi Courts have been recognised internationally, winning two awards: the Australasian Institute of Judicial Administration Award for Excellence in
Judicial Administration, and the 2016 Institute of Public Administration New Zealand Excellence Award.

The Rangatahi Courts have helped to reduce recidivism by 15 percent among Māori youth.\(^3\) We find this an encouraging result, given that Māori youth are over-represented in the criminal justice system. We asked whether the statistics for the Pasifika Courts are similar, but heard that no formal analysis has been done yet because of the relatively small volume of Pasifika youth in the court system, and the time involved in collecting relevant statistics. We consider that helping all youth offenders through restorative justice is a key priority, and we will follow the progress of these courts with interest.

**Staff initiatives**

The ministry’s Home Agents Project will be fully implemented after a two-year trial period. It will involve 100 collections agents working from home in 69 locations throughout New Zealand. We asked about the potential for employee isolation or security breaches. The chief executive reassured us that, after the two-year trial, the employees involved have the highest engagement levels in Collections, and some of the highest in the ministry.

We asked about the results of the ministry’s staff morale survey, in which only 31.9 percent said that the ministry delivers on the promises it makes to its customers. Given that the State sector benchmark is 60.6 percent, the ministry said it was disappointed with the results but is working to improve staff engagement.

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\(^3\) Ministry of Justice, Annual Report, p 24: [https://www.parliament.nz/resource/en-NZ/51DBHOH_PAP71304_1/4e9e006bd0lde341c8f90ca90ec423d28f37244df](https://www.parliament.nz/resource/en-NZ/51DBHOH_PAP71304_1/4e9e006bd0lde341c8f90ca90ec423d28f37244df)
Appendix

Committee procedure
We met on 1 December 2016 and 16 March 2017 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
Sarah Dowie (Chairperson)
Jacinda Ardern
Chris Bishop
Paul Foster-Bell
Marama Fox
Jono Naylor
Denis O’Rourke
Maureen Pugh
Metiria Turei
Louisa Wall

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the Ministry of Justice, dated 1 December 2016.

Ministry of Justice, Responses to standard and supplementary questions, received 29 November 2017.

Ministry of Justice, Supp 1, received 22 November 2016.


Ministry of Justice, Responses to post-hearing questions (207–208), received 24 January 2017.
2015/16 Annual review of the New Zealand Police

Report of the Law and Order Committee

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New Zealand Police

Recommendation

The Law and Order Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Police and recommends that the House take note of its report.

Introduction to the work of the New Zealand Police

The work of the New Zealand Police includes keeping the peace, maintaining public safety, enforcing the law, and preventing crime.

The mission of the Police is for New Zealand “to be the safest country”. Its vision is to have the trust and confidence of all. It seeks to achieve these goals by:

- reducing crime, victimisation and social harm, fatalities, and serious crash injuries
- building trust and confidence in the Police, the capability of its people, and a culture of high performance and safety
- transforming its service delivery and impact, and its performance.

Financial overview and service performance assessment

In 2015/16, the Police received revenue of $1,568 million, up $41 million on 2014/15. Its total expenses were $1,566 million, an increase of $42 million from the previous year. This resulted in a surplus of $1.247 million.

Office of the Auditor-General: results of the annual audit

The Auditor-General assessed the Police’s management control environment as “very good”, an improvement on the “good” rating the previous year. The auditor rated the Police’s financial information systems and controls as “good”, advising that deficiencies identified in both of these areas in 2014/15 had been mostly resolved.

The auditor rated the Police’s service performance information and associated systems and controls as “needs improvement”. The auditor recommended that major improvements be made in this area at the earliest reasonable opportunity. These include developing relevant measures to report the quality and effectiveness of the Police’s activities, ensuring appropriate quality assurance for externally reported performance measures, and better aligning external reporting with internal systems and processes.

The auditor recognised continued work by the Police to develop its performance framework, and we look forward to further improvements in this area in future years.

Increasing the number of police staff

In February 2017, the Minister of Police announced funding for an additional 1,125 police staff, including 880 sworn staff and 245 non-sworn staff, during the next four years. The Commissioner of Police said that 220 trainees would be added to the 400 to 500 trainees who attend the Royal New Zealand Police College each year. The aim is for women to make up 50 percent of the trainees.
We asked the commissioner whether he had put forward the specific number of additional police officers that he thought was needed. The commissioner said that he had put up a case for the same number of staff as announced, 880 sworn police officers and 245 non-sworn officers.

We heard that a Cabinet paper provided evidence about where investment would be best placed to meet the growth in demand—there has been a small increase in the total crime rate since 2015.

**Providing a comprehensive police presence**

When announcing the package to increase police staff and resources, the Minister of Police said that 95 percent of New Zealanders would be within 25 kilometres of a police presence day and night. The 880 extra frontline officers, including 140 officers to be located in regional and rural areas, would provide that presence.

The commissioner said that the additional police staff would be deployed during the next four years and that high-demand areas such as Northland and Hawke’s Bay would be a higher priority.

We asked how this would be achieved in an area such as Northland, with only 140 additional officers in the up to 20 regional and rural police stations. The commissioner said that the community of Te Hāpua in Northland may be among the five percent that would not have this coverage but that a larger centre such as Kaitāia would have an increased 24/7 police presence provided by officers who would be out in the community.

**Managing public confidence**

We asked how the Police manage public confidence when they make changes that involve moving staff to different locations. The commissioner said that the Police have a good consultation process that includes holding public forums to inform people about any changes.

He said that staff movements are designed to provide better police coverage.

**Number of sworn officers in the police districts**

The table of total employee numbers on pages 140 and 141 of the Police’s Annual Report 2015/16 shows that, in seven of the 12 police districts, there were fewer full-time sworn officers at 30 June 2016 than there were at 30 June 2012. However, the number of full-time sworn officers at Police National Headquarters increased from 82 officers at 30 June 2012 to 130 officers at 30 June 2016, and the full-time non-sworn officers increased from 249 to 459 officers during this period.

We asked how this could be. We heard that the number of officers in each of the police districts was the same but the difference was to whom they reported. The reporting model had been reviewed, and changes were made to provide more central oversight.

As a consequence, there were fewer full-time sworn officers in three districts at 30 June 2016 compared to 30 June 2012.

Therefore, staff who no longer reported to a district commander did not appear in the district statistics. Officers listed as working at Police National Headquarters actually worked in other locations throughout the country.
**Police stations closed or disestablished**

We asked how many police stations were closed or disestablished in the annual review period. We heard that 23 shop fronts or kiosks, rather than police stations, were closed. The commissioner said the closures were because of health and safety regulations.

The commissioner said that police were still responsible for the areas in which the closures occurred but that the police services were provided by other means.

**Female commissioners in the Police**

As at 30 June 2016, all of the nine Police commissioners (including the commissioner, deputy commissioner, and assistant commissioner roles) were occupied by men. We asked whether there is a pathway for women into these roles and heard that there is a programme of work to address this.

The commissioner said that three women are now in the Police executive, which provides great diversity of thought throughout the organisation.

**Role of 20 additional ethnic liaison officers**

We asked about the role of the 20 additional ethnic liaison officers announced in the package of additional police resources. We heard that the Police are seeking to attract people who reflect the diversity of the communities they serve, in terms of gender, ethnicity, and diversity of thought and belief.

The commissioner said that the ethnic liaison officers would work to build trust and confidence in their communities and develop good lines of communication that provided results.

**Results of workplace survey**

We commended the Police on the positive results of its workplace survey. Eighty-eight percent of staff said they were strongly committed to the work they do, and 84 percent said they were motivated to be the best they could be in their job.

However, we asked the commissioner whether he was concerned about other, poor results. For example, just 39 percent of staff said that the Police were interested in the views and opinions of staff, and 46 percent said that communication in their district or service centre was open and honest.

The commissioner said that the results of the survey were really important because they inform the way he and his team approach these matters and the support they provide in terms of welfare and leadership.

We heard that the leadership team needs to understand the environment police officers work in to best enable the officers to perform in that environment.

**Measuring crime prevention**

Crime prevention is one of the Police’s main functions, and we asked how the Police measure their performance in this area. We heard that, although this is challenging, the Police measure several of the preventative tasks they carry out. We also heard that the Police are introducing an evidence-based model of policing to better understand the effect of their crime prevention activities. This would involve measuring the activity and its effect on crime in that particular area.
The commissioner said that the Police look at the crime situation in every area and district, and use a sophisticated national tasking and coordination approach to deploying staff. This involves using their Real Time Intelligence and Operational Development System.

We heard that understanding the environment means that resources can be deployed to where they are needed and will have an effect. For example, addressing alcohol-related matters early had been shown to stop serious assaults later at night.

Crime has increased a little in the last 12 months, and we asked whether this was proportional to the Police’s performance. The commissioner said police activity was a factor, but that several factors drive crime. The deputy commissioner, district operations said that sometimes police activity drives an increase in crime statistics but it also keeps people safer.

**Crimestoppers service**

We asked about the Crimestoppers service that allows members of the public to report information anonymously to the Police by phone or email. In 2015/16, the Police received 10,087 Crimestoppers referrals that intelligence and investigation staff investigated and reviewed.

The referrals were organised into the themes of drugs, violence, road policing, burglary, sexual offending, families, organised crime, unlawful taking, theft ex car, and unknown/unclear/other. The greatest number of referrals (4,488) involved drugs, and 3,402 of the referrals were classified as unknown/unclear/other. The theme with the third highest number of referrals (503) was violence.

**New non-emergency number**

A new national 24/7 non-emergency number will provide quick and direct access to police services in non-emergencies. We heard that this will make the Police more available and responsive, improving on the current situation where it can be difficult to get hold of someone.

**Addressing organised crime involving methamphetamine**

We asked the Police how they are addressing the methamphetamine trade and the organised crime groups involved with it. We heard that the Police have several task forces in place. These involve the Police working with Customs and other law enforcement agencies in New Zealand and overseas to limit the amount of methamphetamine entering the country. In particular, the organised crime task force has been successful in targeting people involved, and seizing their money and assets.

We heard that the Police have a preventative focus that involves working with the health sector to educate young people about this issue, which concerns all of society. The multi-agency Gang Intelligence Centre based at Police headquarters is building up detailed intelligence about the activity of gang members. This is then used to determine what action needs to be taken.

**Youth gangs**

We asked the commissioner whether youth gangs were a concern for him. He said that young people were overrepresented in crime, particularly in bigger cities.

We discussed the high number of young people in South Auckland and heard that working with young people is a top priority for the Police in the Counties Manukau district. We
learnt that there are 54 staff in the Counties Manukau district whose primary focus is working with youth, and an additional 107 staff who work in the secondary support teams.

We heard that the leadership team in that district has excellent relationships with the community organisations it works with. The partnerships with these organisations are critical to making a difference.

We asked whether there was a link between the number of young people not in education, training, or employment, and those involved in gang-related issues. The commissioner said that this was a factor but that even young people who are doing well in school associate in groups after school.

**Higher numbers of bodily samples from young people**

In 2015/16, 644 bodily samples were taken from young people, compared with 366 samples in 2014/15. In 2015/16, 175 samples were received from 14-year-olds, 233 samples were received from 15-year-olds, and 225 samples were received from 16-year-olds.

The Police informed us that the variation between the years occurred because of changes to the DNA legislation and, more recently, the Police’s focus on recidivist offenders from whom it is appropriate to take DNA.

We asked about the process for taking a sample from a young person. We were informed that, when seeking a sample, the Police give the young person a notice of request form. This form contains information including their right to seek legal advice, how the sample can be taken and by whom, who they can have with them at the time of sampling, that the sample can be taken by force if the sample is refused, and what will be done with the sample. The notice is signed by the young person and their parent/caregiver.

If consent is not granted, reasonable force may be used to assist a qualified person to take a finger prick sample. We were told that force has not needed to be used when sampling young persons in recent years.

**Working with people suffering from mental health issues**

In 2015/16, the number of non-criminal investigations relating to persons with suspected mental illness was 13,888. We understand that the Police are also housing people with mental health issues in police cells.

We asked the commissioner whether the Police are still facing this sort of demand with mental health incidents. We heard that the demand is increasing and that the Police have a taskforce that includes the director of mental health and the Ministry of Health to improve the response to mental health incidents.

**Addressing hate crime**

A hate crime incident towards the end of January 2017 in Huntly involved two police officers being assaulted. We asked the Police whether crime of this kind is increasing and heard that this type of crime is not recorded as a specific category or counted separately.

The Police said that they are concerned about these types of crimes. The commissioner told us that the Police are working with their partners to consider whether or not it would be appropriate to develop some hate crime legislation.
Using technology to support policing

We discussed the use of technology to support front-line policing. The commissioner said that the Police’s advanced mobility programme now enables front-line officers to carry out their work in the field.

We heard that the productivity gains from using mobile technology are equivalent to 350 front-line staff. Being able to get real-time information about people means that police officers are much safer in the workplace. It also means that they can provide a much better service to victims and the public.

Using technology to collect and record evidence

We heard that, after changes to the relevant regulations, the Police piloted collecting and recording evidence on devices. Although there were some technical challenges, there is great potential for using technology in this area, and another pilot project is planned.

Use of the Eagle helicopter

The Minister of Police recently announced that the Eagle helicopter would be available 24/7 with a response time of 10 to 15 minutes. We heard that the Police contract the use of a helicopter and pilot, and that several helicopters could be used.

We asked the Police whether they keep a record of every success they have using the helicopter. The Police informed us that, in 2015/16, the Eagle helicopter achieved a 49 percent success rate, with 1,820 out of 3,715 occurrences resulting in the positive location of the target(s) sought. We heard that, the day before our hearing, the helicopter had located the vehicle used by a person who abducted a woman in Eden Terrace in Auckland.

New human resources system

The new Police Human Resources Management Information System, MyPolice, is scheduled to go live in April 2017. We heard that, in addition to payroll, the system will incorporate an electronic performance management system.

The commissioner said that deployment of the system is on track and that a large number of people are focused on its success.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 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)
Maureen Pugh
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Lindsay Tisch
Aupito William Sio
Jonathan Young

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


New Zealand Police, Responses to questions, received on 10 February and 3 March 2017.
2015/16 Annual review of the Privacy Commissioner

Report of the Justice and Electoral Committee

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Privacy Commissioner

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2015/16 performance and current operations of the Privacy Commissioner, and recommends that the House take note of its report.

Introduction

The Office of the Privacy Commissioner (the Office) is an independent Crown entity that administers the Privacy Act 1993. The Office investigates complaints about breaches of privacy, examines proposed legislation, and works to promote and protect individual privacy.

John Edwards is the Privacy Commissioner. He is supported by two Assistant Commissioners, Joy Liddicoat and Blair Stewart.

Financial position and audit opinion

In 2015/16 the Office’s total revenue was $5.281 million, a decrease of $0.231 million (4 percent) from 2014/15. Total expenses were $5.635 million, an increase of $0.764 million (16 percent) from 2014/15.

The Auditor-General noted that the Office’s financial performance was less favourable than budgeted. Based on the surplus of $0.641 million reported in 2014/15, the Office had budgeted to return a surplus of $0.036 million in 2015/16. However, it reported an operating deficit of $0.354 million. The variance from budget arose mainly from staff changes, with costs resulting from higher than expected turnover and the establishment of new positions. The Office was able to fund the budget shortfall from reserves.

The auditors graded the Office’s management control environment and financial information and controls as “very good”. No recommendations were made for improvement in these fields. The auditors graded the Office’s performance information and associated systems and controls as “needs improvement”. Recommendations for improvement include greater use of graphs to help demonstrate performance over time, and further consideration as to whether the Office can and should measure its outcomes and strategic initiatives.

We note that the Office has started a project to update its Statement of Intent. This includes reviewing the performance reporting framework. We will be interested to see the results of this project.

Complaints process satisfaction survey 2015/16

The Office commissioned Colmar Brunton to carry out an online survey of New Zealanders who had been involved in its complaints process during 2015/16. In previous years, in-house surveys had been carried out to measure satisfaction with the complaints process and identify areas for improvement.

The results of the survey indicated that 52 percent of participants were satisfied with how the Office handled the complaint(s) they were involved in. Complainants were significantly
less likely to be satisfied than respondents. We heard that it is often difficult to accurately assess how complaints are handled, as the outcome of cases tends to influence survey responses. This survey tried to separate outcome from process by first asking whether the participant was satisfied with the outcome of the case they were involved in, and then asking specific questions about the complaints process. The areas identified for improvement include quicker follow-up and progress reporting, as well as a warmer and more compassionate level of service.

The Commissioner assured us that the Office continues to improve its levels of service and customer satisfaction. We note that the Office set a very high target of 80 percent satisfaction and we encourage it to set more realistic targets in future.

**Improving public services**

**Responding to increased demand**

The Office received 969 new complaints in 2015/16, an increase from the 835 complaints received in 2014/15. Of the complaints received in 2015/16, 57 percent were about alleged breaches by public sector agencies and 43 percent were about alleged breaches in the private sector. Almost all complaints (92 percent) were completed within 6 months.

We heard that the Office receives around 8,000 calls to its inquiry line each year and that it has launched a suite of online tools to help respond to this demand. These tools include an interactive FAQ tool called AskUs, which provides readily accessible privacy advice, and AboutMe, which helps people request their personal information from agencies. These tools are well used by the public and have helped to relieve pressure on the inquiry line.

**Guidance, education, and awareness**

We asked about the shift in resources away from the provision of “guidance, education, and awareness”, as there has been a decrease from 31 percent of output expenses in 2013/14 to 13 percent of output expenses in 2015/16.

We heard that the Office is deliberately investing capital in online tools and reducing operational costs in this area. It launched an online privacy training module last year to educate more people about privacy and reduce the demand on staff time associated with hosting in-house workshops every month. Uptake and growth of the modules is steady. More than 9,000 people have registered for the modules, and about 400 new users sign up every month.

**Staff recruitment, training, and retention**

The Office employs staff in Auckland and Wellington. We heard that the majority of its overspending on staff expenses resulted from the establishment of four new positions and higher than expected staff turnover. Therefore, we asked about the recruitment of new staff, how it trains in such a specialised area, and how it works to retain staff.

The Office said it has developed standardised procedure manuals, an induction process, and a buddy system for new staff in order to maintain its high quality of services. It acknowledged that dealing with complaints for a long period of time is difficult, and that in order to retain staff it is essential that they learn how to deal with complaints more effectively and continue to improve in all areas.
Inquiries into matters that may affect individual privacy

The Privacy Commissioner can initiate their own inquiries to monitor, research, and report on matters relating to privacy. We heard that the Commissioner is currently working on an inquiry into the Ministry of Social Development’s new contractual requirement for community organisations to provide individual client-level data. The Commissioner intends to finalise this report by the end of March 2017.

We will be interested to learn the results of its inquiry.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the Privacy Commissioner. We heard evidence from the Privacy Commissioner 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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Privacy Commissioner, Responses to standard questions, received 2 February 2017.
Privacy Commissioner, Four-monthly report 1, received 2 February 2017.
Privacy Commissioner, Four-monthly report 2, received 2 February 2017.
Privacy Commissioner, Four-monthly report 3, received 2 February 2017.
Privacy Commissioner, Four-monthly report 4, received 2 February 2017.
Privacy Commissioner, Responses to supplementary questions, received 16 March 2017.
2015/16 Annual review of the Public Trust

Report of the Commerce Committee

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Appendix 4
Public Trust

Recommendation
The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Public Trust and recommends that the House take note of its report.

Introduction
Public Trust is a statutory corporation established by the Public Trust Act 2001. It is a Crown entity for the purposes of the Crown Entities Act 2004 and the Public Finance Act 1989.

Public Trust’s core business is:
- providing wills and enduring powers of attorney
- estate management
- Protection of Personal and Property Rights Act and personal management services
- trusts
- investment services for fiduciary customers.

Public Trust is responsible for funds under management, including fiduciary responsibility for trusts under management and trusts under supervision. This includes the Common Fund ($466 million as at 30 June 2016).

Public Trust is governed by a board appointed by the Minister of Justice with the agreement of the Minister of Finance. Sarah Roberts has been the chair of the board since July 2013, and Bob Smith has been the chief executive since December 2013. As of the end of the year in review, Public Trust had 329 employees.

Financial and operating performance
In 2015/16, Public Trust had net income of $55.37 million (actual 2014/15: $53.18 million). This resulted in a profit of $6.15 million, compared to a loss of $2.87 million in the previous year. We congratulate it on the return to profitability.

The Office of the Auditor-General (OAG) rated Public Trust’s financial information systems and controls as “needs improvement” for the third year in a row. Although we acknowledge that the ongoing restructure has caused some disruption, we hope to see an improvement in this area during the current financial year.

The OAG rated Public Trust’s management control environment as “good”, where it was graded as “very good” last year.

Ongoing implementation of the Business Improvement Programme
To address underperformance, Public Trust has been implementing a Business Improvement Programme since late 2012. The programme involves a series of organisational and information technology (ICT) changes.
New ICT systems have been put in place

During the last 18 months, Public Trust has replaced its former core client management system with a new system called “NavOne”. The new system went live in November 2016. During Public Trust’s annual review hearing last year, we heard that implementation of NavOne had experienced delays and required significant investment, so we are pleased it has been rolled out successfully.

We asked about further developments to NavOne, since additional improvements are often identified after such a large-scale rollout. We were told that a new version was released at the end of January, and another update is expected at the end of March 2017.

The issues that have been identified are at “the lower end of the spectrum”. Although ongoing improvements to the new ICT system will continue to be made, Public Trust said it was now focusing on “business-as-usual continual improvement”.

We wanted to know the estimated cost of further improvements to its ICT system. In the context of NavOne, Public Trust informed us that two new major releases of NavOne are planned before the end of the 2016/17 financial year. It estimates the combined costs of both releases will be between $700,000 and $800,000. This includes costs for scoping and development, for support, and for the actual release and implementation of updated code. We will continue to monitor the implementation and costs of NavOne with interest.

Streamlining and a return to core business

We were told that the previous organisational structure was very complex. Public Trust said that, as part of the restructure of the retail business, it has now “gone back to basics”. This means that it has moved back to being a trustee business, not a financial service provider.

Public Trust said this “streamlining” of its business means that it no longer engages in mortgage lending, third-party conveyancing, or selling insurance. Additionally, the Common Fund is nearly wholly invested in bank deposits, as opposed to higher risk/yield investments.

Improvements to staff and client-side systems

We heard about changes to Public Trust’s staff and client systems that are part of its renewed focus on core business. It said that it has done “substantial, continual” systems and technical training, especially for front-line staff.

Public Trust said that, with the new ICT systems and process changes in place, the key focus was now on people capability, which it feels is “fundamental” to its improvement.

When Public Trust acts in the public interest

We asked how Public Trust makes judgements and assessments about acting in the public interest. It noted that the Public Trust Act requires that it be run efficiently, like any commercial organisation.

That said, one of Public Trust’s cultural values is empathy with its customers, which it believes is a core value of the organisation. Being a trustee of last resort means it is often appointed by courts in a number of scenarios where private enterprise would not be there to assist. It is also often appointed for customers who are incapacitated.

Some of us consider that it would be helpful if Public Trust’s annual report identified more specific ways in which it served the public good.
Appendix

Committee procedure
We met on 16 February and 9 March 2017 to consider the annual review of the Public Trust. We heard evidence from Public Trust and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Evidence and advice received
Advice and evidence received can be found on the Parliament website www.parliament.nz.
Office of the Auditor-General, Briefing on the Public Trust, received 14 February 2017.
Public Trust, Responses to written questions, received 14 February and 3 March 2017.
2015/16 Annual review of the Real Estate Agents Authority
Report of the Commerce Committee

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Real Estate Agents Authority

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Real Estate Agents Authority, and recommends that the House take note of its report.

Introduction

The Real Estate Agents Authority is the independent Government regulatory body for the real estate industry in New Zealand. It is a Crown entity, established under the Real Estate Agents Act 2008.

The authority aims to promote high standards of service and professionalism in the real estate industry, and help to protect buyers and sellers. It does this by providing information to buyers and sellers, providing advice and guidance to agents, and dealing with complaints about agents’ behaviour.

Financial and service performance

The authority’s total revenue for 2015/16 was $11.613 million, higher than both the budgeted figure ($10.927 million) and its revenue for 2014/15 ($11.200 million). Total expenditure for 2015/16 amounted to $9.393 million, resulting in a financial surplus of $2.22 million. A similar surplus was achieved in the previous year. As a result, the authority’s net assets were $4.426 million at the end of June 2016, equivalent to 38 percent of annual revenue.

In April 2016, the authority made a payment of $1.164 million as full and final settlement of the Crown’s establishment funding ($6.207 million).

Audit opinion

The Auditor-General assessed the commission’s performance information and associated systems and controls and its financial information systems and controls as “good”. The auditors observed that the authority’s performance framework had undergone changes in wording and output measures over a prolonged period. It recommended that the authority work towards a more stable outcomes framework.

The Auditor-General said the authority’s management control environment “needs major improvements at the earliest reasonable opportunity”, in two main areas:

- The auditors noted instances where non-management staff had made decisions that departed from agreed processes when attempting to manage and deal with changes and challenges. Their actions introduced some risk to the authority. The auditors recommended that the authority clarify expectations around delegations for decision-making when departure from accepted practice is required.
The auditors noted that the daily fee set for Complaints Assessment Committee (CAC) members exceeded the limits in the Cabinet fees framework. They recommended that the authority contact the State Services Commission to seek advice and approval for its fee framework.

We were pleased to hear that the authority had acknowledged the concerns and is taking steps to respond to the auditors’ recommendations.

**Complaints to the authority**

One of the authority’s core functions is to respond to enquiries and complaints. The authority investigates problems and ensures appropriate action is taken to sanction any unsatisfactory conduct, misconduct, or illegal behaviour. We sought more information about the complaints referred to the authority and how they had been dealt with.

We heard that the authority had received 564 complaints in 2015/16. About a third were upheld and resulted in disciplinary findings.

**Imposing penalties**

Where licensees have been found to act unethically, the authority can impose a range of penalties. This is especially important to establish precedents for the industry and maintain public confidence in the integrity of licensees.

Where a fine is imposed, the average ranges between $3,000 and $5,000. We questioned whether a fine of this size acts as a sufficient deterrent in an “overheated” market where licensees can earn a large commission from a single transaction. The authority said it takes legal advice to ensure that the fines imposed are comparable with fines imposed in other professions.

In some cases, the authority said, an infraction occurs because a licensee has not had adequate training or supervision. The authority can compel a licensee to undertake further training. It can also take action against a firm on the basis that it did not provide adequate supervision of its licensees.

**Denying or cancelling an agent’s licence**

The authority told us that it can deny a licence application or seek to cancel a licence. The authority has denied applicants on the basis of a police check, and has also sought to cancel a licence when a licensee has received a criminal conviction.

We considered that some licensees should have had their licences cancelled when facing criminal convictions or charges of misconduct. Allowing these licensees to continue to transact damages public confidence in the industry. The authority said that it is quick off the mark to seek cancellation of a licence in these cases. However, it relies on the Real Estate Agents Disciplinary Tribunal, which holds that power. We heard that the tribunal takes a considered approach as it evaluates the charges against a licensee and the licensee’s ability to support themselves through employment.

**Fast turnaround of property transactions**

We asked whether the authority was investigating cases of property “flipping”, where a property is bought and quickly on-sold for profit. We were concerned that licensees were acting unethically by not securing the best price for the first vendor and by forming a relationship with the purchaser to on-sell the property.
The authority said it shared our concern, and told us that it had investigated 300 cases where a property had turned over rapidly. It focussed its investigation on the behaviour of licensees, to establish whether they were working in the best interests of vendors. It was difficult for the authority to determine whether the licensees were engaging in unethical dealings with subsequent purchasers. This is because it is usual for licensees to advise both the vendor and purchaser. Licensees also develop associations with purchasers in the hope that they will sell through them at a later date.

We had heard that state governments in both New South Wales and Victoria have instituted rules to prevent the underquoting of property prices to potential buyers. The rules include requiring a vendor’s reserve price to be made public, and banning open-ended phrases in advertising. We asked whether the authority would consider introducing similar regulations to help protect vendors’ interests. The authority said it would consider and encourage any regulations that would protect consumers without inhibiting the market.

**Maintaining public confidence in the industry**

The authority said that its monitoring of licensees is lifting their professionalism and improving public confidence in the industry. However, its surveys have confirmed that about 80 percent of people do not feel empowered when conducting property transactions. At a recent strategic planning session, the authority considered ways it could educate the public about conveyancing transactions, to further lift public confidence in the industry. We will be interested in hearing about any future steps the authority takes to improve public confidence in the real estate industry.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the Real Estate Agents Authority. We heard evidence from the authority and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Real Estate Agents Authority, responses to written questions, received 7 and 17 March 2017.
2015/16 Annual review of the Serious Fraud Office

Report of the Law and Order Committee

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Appendix 5
Serious Fraud Office

Recommendation

The Law and Order Committee has conducted the annual review of the 2015/16 performance and current operations of the Serious Fraud Office, and recommends that the House take note of its report.

About the Serious Fraud Office

The Serious Fraud Office (SFO) is a specialist law enforcement agency that detects, investigates, and prosecutes New Zealand’s most serious or complex financial crimes.

At 30 June 2016 the SFO had 46 full-time and 5 part-time employees, led by Chief Executive and Director Julie Read, and a senior leadership team of five general managers.

Financial performance

The SFO’s total revenue for 2015/16 was $9.536 million, up $0.438 million (4.8 percent) from 2014/15. Its total expenditure for the year was $8.853 million, down $0.092 million (1 percent) from the previous year. The office reported a surplus of $0.683 million. This under-spending resulted from efficiencies, and lower staffing levels and lease divestment than budgeted.1

The auditors issued an unmodified audit opinion on the financial statements and non-financial performance reporting of the SFO. They rated its management and financial controls as very good, consistent with the previous year.

New strategic plan

The SFO’s annual report for 2015/16 included a new strategic plan for 2016–2020. The key changes give greater recognition to the SFO’s responsibilities beyond its main role of investigating and prosecuting serious financial crime. These include increased responsibilities in the area of bribery and corruption, as well as activities relating to financial intelligence and inter-agency coordination, policy, and education.

The SFO will update its Statement of Intent for future years, based on the new strategic plan. In the context of the SFO’s performance framework, the Office of the Auditor-General has recommended that the SFO be clearer about what it intends to achieve over the four-year planning horizon, and how it will know whether it is heading in the right direction.

Awareness and understanding of the SFO’s work

The SFO’s Public Trust and Confidence Survey indicated a decline in public awareness of the SFO’s work. Awareness was 60 percent in 2016, down from 79 percent in 2012. We asked whether this created a risk of people not reporting financial crimes to the SFO. We were told that the SFO needed to strike an appropriate balance between lifting its media and public profile, and respecting the sensitivity of ongoing investigations.

1 Serious Fraud Office, Annual Report 2016, p. 6.
We also noted that only 16 of the 596 complaints made to the SFO in the financial year had resulted in investigations, and asked whether this indicated that people did not sufficiently understand its mandate. The SFO told us that this was true in part. Where matters were not within the SFO’s mandate, it advised complainants. Where relevant, it referred them to other agencies.

Of the 596 complaints made to the SFO in 2015/16, only seven were referred to the SFO by the Police. Of these, four did not proceed to investigation. Three were closed following initial inquiries, and one was referred back to the Police.

**Timelines and targets for investigations**

In our 2014/15 annual review we noted that the SFO had changed the way it reported on its investigations, dividing them into two categories: Part 1 enquiries, and Part 2 investigations.

Part 1 enquiries are limited in scope and determine whether grounds exist for a full investigation. Part 2 investigations are then undertaken where there are reasonable grounds to believe that an offence involving serious or complex fraud may have been committed.

In 2015/16 the SFO did not meet its timeliness targets for Part 2 investigations. We were told that this was because the targets were unrealistic. Part 2 investigations take more time and resources, but the targets had not been adjusted to reflect this when the two categories of investigations were created.

The SFO acknowledged that this was confusing and said the problem would be rectified. The timeliness measures for Part 2 investigations have been revised for future years, creating two subcategories with new targets for completing investigations in each, to better reflect the relative complexity of the matters involved.

The SFO is also taking measures to improve the timeliness of its investigations. The chief executive told us that the SFO continues to reform how it deals with its preliminary and mainstream investigations; some investigation statistics have improved as a result. In particular, the SFO worked with its staff during 2015/16 to achieve swifter initial assessment of complaints.

**Cooperation with other agencies**

We heard that the SFO has recognised the importance of changing from a centralised agency working by itself on a small number of matters, to having a greater influence across the public sector. While this is yet to come to full fruition, the SFO is working to link up with other public and State sector agencies on financial crime intelligence and strategy.

Under its new strategic plan the SFO is to lead intelligence-sharing between agencies to identify and prevent threats of financial crime. In 2015/16, the SFO developed a financial intelligence strategy aligned with the strategic plan, and set up an inter-agency financial crime intelligence project, chaired by the SFO.

The chief executive told us that the SFO does not claim all of the expertise, but because it is solely dedicated to financial crime, it is well placed to lead cooperation in this area. Many other agencies are supportive of the SFO’s role and actively participate in its working groups.
Improving systems and services

Replacement of the Wynyard investigator software

An external review of the SFO’s case and complaint management systems, time and cost systems, and resource management systems, was completed during the financial year. In July 2016 the SFO began the procurement process for transitioning from its old, dated tools to new, fully integrated systems.

Contact centre services

From October 2015, the SFO has outsourced its contact centre services. It uses the Ministry of Business, Innovation and Employment’s call centre in Christchurch. The Office of the Auditor-General advised us that it had visited the centre, and confirmed that its systems and processes were operating effectively.

The changing nature of fraud

We discussed how technology is changing the nature of fraud and financial crime. The SFO said that the use of computers sometimes makes investigating crime easier, because of the availability of metadata. However, technology is moving so fast that the advantage remains with the criminals. This is a focus area for the SFO, which has employed two electronic forensic specialists, and is also working to raise the competence of all staff to understand and investigate cybercrime.

Level of corruption and financial crime in New Zealand

We noted the SFO’s objective of maintaining New Zealand’s reputation for low levels of financial crime, bribery, and corruption. We queried whether the reputation reflects the reality, and if it does, whether New Zealand should aim for zero financial crime.

The SFO pointed out that Transparency International’s corruption index measures perceptions. However, there are also concrete actions by New Zealand, such as legislative reform, that underpin its high and improving ranking in the index. We heard that it may be unrealistic ever to expect no financial crime at all, but the lack of corruption in New Zealand is a good indicator of its low level of financial crime more generally.
Appendix

Committee procedure
We met on 8 February and 15 March 2017 to consider the annual review of the Serious Fraud Office. We heard evidence from the Office, and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Mahesh Bindra
David Clendon
Ian McKelvie
Stuart Nash
Maureen Pugh
Aupito William Sio
Lindsay Tisch
Jonathan Young

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing paper, dated 8 February 2017.
Serious Fraud Office, Responses to questions, received 3 February 2017.
Serious Fraud Office, Responses to questions, Attachment to question 44, received 3 February 2017.
Serious Fraud Office, Responses to supplementary questions, received 23 February 2017.
The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the Arts Council of New Zealand Toi Aotearoa, the Museum of New Zealand Te Papa Tongarewa Board, the New Zealand Lotteries Commission, and the Office of Film and Literature Classification, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
# 2015/16 Annual review of the Broadcasting Standards Authority

Report of the Commerce Committee

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Broadcasting Standards Authority

Recommendation

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of the Broadcasting Standards Authority and recommends that the House take note of its report.

Introduction

The Broadcasting Standards Authority (BSA) was established by the Broadcasting Act 1989 and is an independent Crown entity under the provisions of the Crown Entities Act 2004.

The BSA is a broadcasting content regulator, covering free-to-air and pay television, radio, and election programmes. Its principal job is determining complaints alleging that broadcasters have breached the codes of broadcasting practice.

The BSA is governed by a four-member board, and six full-time staff oversee its operations. Peter Radich is the chairperson of the board, and Belinda Moffet is the chief executive.

Financial and operational performance

About one-third of the BSA is funded by the Government and two-thirds through broadcaster levies.

In 2015/16, its total revenue was $1.56 million (compared to $1.55 million in 2014/15) and total expenditure was $1.16 million. This resulted in a net surplus of $404,978, with $203,000 returned to the Crown. This surplus is a nearly 12 percent increase from the previous year.

Audit opinion

The Office of the Auditor-General rated the BSA’s management control environment, financial information systems and controls, and performance information and associated systems and controls as “very good”. These are the same ratings as the previous year.

Expanding its role into monitoring on-demand content

In August 2016, the Minister of Broadcasting announced the Government’s intention to introduce the Digital Convergence Bill. This bill would amend the Broadcasting Act and expand the remit of the BSA to include on-demand content.

We were told by the Press Council that this expanded role would not include online news and current events broadcasts, which fall under the jurisdiction of the Press Council as of 1 January 2017, or user-generated content.

We asked whether the BSA knew about the status of the Digital Convergence Bill. It told us that it is uncertain of the bill’s current status and had not yet seen a draft of the bill. It also said that it has had no direct discussions with any Minister about its proposed new role, although it has previously assisted officials with policy issues relating to the proposed bill.
The BSA informed us that, at this stage, it expects to be able to manage any expanded remit within existing funding, along with levies from on-demand providers. It also has “significant reserves” that it could use if necessary.

**Updating the Broadcasting Act**

The BSA told us that it thinks it is time for a wider review and update of the Broadcasting Act. The broadcasting world has changed dramatically since 1989, with less clear boundaries between television, radio, print, and online broadcasting (known as convergence).

The current regulations are based on a model that is nearly 30 years old. We agree that an update of the Act is in order.

**Freedom of expression, harm, and the right to privacy**

The BSA told us that it increasingly values freedom of expression and that this freedom is “essential and fundamental” in a democracy. It said that it has moved towards taking a “liberal” approach and being less intrusive about what can be broadcast.

We asked the BSA about the point at which freedom of expression overrides a person’s right to privacy. It acknowledged that this is a very difficult question. It tends to focus on whether a person was harmed and, if so, whether that harm was a result of too much intrusion.

It told us that, with regard to determining whether harm has occurred or not, it does not have a single definition of harm. It uses its Standard Codebook, and its judgements aim to be objective and treat people “generically”. It told us that, in that spirit, it uses the “reasonable person” test to determine whether or not harm has occurred.

**Reducing possible confusion about election advertising**

We asked the BSA about possible confusion about election advertising. This confusion has not been helped by what may appear to some as different rules and rulings from the courts.

The BSA told us that it is currently working with the Electoral Commission on the Commission’s upcoming media handbook to ensure that they both have a consistent approach. It is also working with the Commission and the Advertising Standards Authority to make sure that “good, robust” guidance is available for parties, candidates, broadcasters, and the public in the upcoming general election.

The BSA is also working on updating and consolidating all the related material on its website.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of the Broadcasting Standards Authority. We heard evidence from the Broadcasting Standards Authority and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Advice and evidence received can be found on the Parliament website www.parliament.nz.
Office of the Auditor-General, Briefing on the Broadcasting Standards Authority, received 7 March 2017.
Broadcasting Standards Authority, Responses to written questions, received 7 March 2017.
Broadcasting Standards Authority, Responses to additional written questions, received 9 March 2017.
2015/16 Annual review of Drug Free Sport New Zealand

Report of the Government Administration Committee

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Drug Free Sport New Zealand

Recommendation
The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of Drug Free Sport New Zealand, and recommends that the House take note of its report.

Introduction
Drug Free Sport New Zealand (DFSNZ) is an independent Crown entity established under the New Zealand Sports Drug Agency Act 1994, and the Sports Anti-Doping Act 2006. DFSNZ receives the bulk of its funding from Government. Its application of these funds is monitored by the Ministry for Culture and Heritage.

DFSNZ is responsible for implementing and applying the World Anti-Doping Code in New Zealand and encouraging athletes to reject cheating through the use of prohibited drugs. It conducts a drug testing programme, investigates reports of doping, and provides resources and education to better inform New Zealand athletes of the consequences of doping.

DFSNZ employs 11 full- and part-time staff but utilises independent contractors to collect drug samples or deliver education programmes.

The chief executive of DFSNZ is Graeme Steel, and the board chair is Hon J Warwick Gendall QC.

Financial performance
DFSNZ’s total revenue in 2015/16 was $2.889 million, and total expenditure was $2.962 million, resulting in a loss of $72,915. The deficit resulted from funds being carried forward from the previous year and a decision to establish an improved education programme for youth.

We asked what DFSNZ will do to prevent further deficits. DFSNZ assured us that it would not normally carry forward funds in this way, and expects future budgets to be cash-flow positive. Despite this assurance, DFSNZ is forecasting a deficit of $128,000 in 2016/17.

DFSNZ received an additional $1 million of funding for the 2016/17 financial year to support financial sustainability, continue access to modern science and intelligence-gathering methods, and broaden the scope of its work to include additional athletes, support staff, and junior athletes. In light of the increase in funding, DFSNZ has been working with stakeholders to develop a new strategy and is revising its Statement of Intent.

Targeting funding
In 2015/16 DFSNZ undertook a new spending initiative to target funds received from the Proceeds of Crime Fund. The funding is used for research into developing and supporting a drug free culture amongst young athletes. It has continued into 2016/17 and will be evaluated upon completion. The $300,000 fund helped DFSNZ to reduce its 2015/16 deficit from the $150,000 originally forecast.
Audit opinion

The Auditor-General issued a standard audit report. It gave DFSNZ’s management control environment, and its financial information systems and controls, the highest rating of “very good”. The Auditor-General rated the entity’s performance information and associated systems and controls as “good”, recommending that DFSNZ carry out a review of its performance measures and targets. This would ensure that DFSNZ’s reporting continues to provide meaningful information for readers about its performance.

In this context, we note that DFSNZ has commissioned research to establish benchmarks for assessing the attitudes and behaviours of young athletes in relation to doping. Once this project is completed it will then be in a position to monitor changes over time.

Educational programmes and resources

DFSNZ coordinates anti-doping educational programmes, such as Good Clean Sport, that target both high-performance and young athletes. The programmes give young athletes information about international doping rules and guidance for avoiding drugs.

DFSNZ has also invested $100,000 in an e-learning project to better educate athletes, coaches, and support personnel. The project started in September 2015, and will run until April 2017.

We asked what DFSNZ was doing to address the risks for young athletes in engaging with recreational drugs. DFSNZ said it runs workshops in schools that emphasise the importance of remaining drug free. DFSNZ believes that by reaching a large number of young and aspiring athletes in this way, it can influence their behaviour and create role models in schools.

Drug testing targets

DFSNZ conducts drug testing of athletes across the country and has set much higher targets for 2016/17. They include increases in the minimum number of urine tests (from 920 in 2015/16 to 1,450 in 2016/17), and in the minimum number of blood samples taken (from 180 in 2015/16 to 270 in 2016/17).

Recent media reports about the misleading drug test results of Patrick Tuipulotu highlighted the potential inconsistency of drug tests. We asked DFSNZ how commonly drug test results are found to be inaccurate. We heard that false positive results are extremely rare, but that there is a margin of error with any testing. For this reason, DFSNZ tests multiple times and takes considerable care to minimise the contamination of the samples.

The organisation’s role in sporting integrity

DFSNZ has been engaging in extensive dialogue with Sport New Zealand over the need to address sporting integrity issues beyond doping, most notably match-fixing. They are discussing what role, if any, might be appropriate for DFSNZ should its mandate be extended.

We asked DFSNZ if it is reassessing and expanding its responsibility and influence as a regulatory body to take on a broader role. DFSNZ said it has not considered offering to expand its role. It has taken the view that its core business is anti-doping. It emphasised that any suggestion of a wider mandate should not compromise that focus.
Engaging with the international anti-doping community

The World Anti-Doping Agency (WADA) is an international body that provides a vehicle for DFSNZ and other national anti-doping organisations to have input into key policies, particularly by participating in their annual symposium. WADA is also responsible for administering and updating the lists of banned drugs in sport.

Since the discovery of wide-scale doping in Russia, WADA has come under scrutiny for not picking this up earlier. DFSNZ told us that the International Olympic Committee had raised this with WADA some time ago, but it became clear that there were issues within WADA. DFSNZ sees the future of WADA as being a much more independent organisation that will make decisions purely on doping issues.

Anti-doping organisations in Denmark and Finland

Representatives of DFSNZ recently travelled to Denmark and Finland to hear about the successes and operations of those countries’ national anti-doping organisations. We asked whether these countries, or others, can offer any models of best practice or new initiatives that New Zealand could learn from.

DFSNZ told us that these national doping organisations have taken on functions in the areas of match-fixing and corruption. However, it believes that they lack the ability to independently investigate and prosecute cases in front of an independent tribunal. DFSNZ see these elements as central to effective anti-doping regimes. They are also necessary for similar regulatory matters. In its opinion, the functions of dealing with match-fixing and corruption are beyond the scope of DFSNZ.

Increase in the threshold for cannabinoids

WADA has raised the threshold for tested athletes to return a positive result for cannabinoids. DFSNZ told us that, since the change, there have still been positive tests for cannabinoids, but less costs associated with testing. We asked why cannabinoids were not removed entirely from the list. We were told that a number of countries and organisations are still reluctant to do so.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 to consider the annual review of Drug Free Sport New Zealand. We heard evidence from Drug Free Sport New Zealand, and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Barry Coates
Brett Hudson
Paul Foster-Bell
Hon Nanaia Mahuta

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Drug Free Sport New Zealand, Responses to written questions, dated 13 February and 6 March 2017.
2015/16 Annual review of Heritage New Zealand Pouhere Taonga

Report of the Government Administration Committee

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Recommendation

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of Heritage New Zealand Pouhere Taonga, and recommends that the House take note of its report.

Introduction: about Heritage New Zealand Pouhere Taonga

Heritage New Zealand Pouhere Taonga (HNZPT) is an autonomous Crown entity. The organisation’s structure, roles, and responsibilities were significantly revised in 2014 by the Heritage New Zealand Pouhere Taonga Act 2014.

In February 2016, following the departure of Bruce Chapman after 10 years as chief executive, the Minister for Arts, Culture and Heritage commissioned an independent external review of the future direction HNZPT should take.

The review, conducted by Martin Jenkins and Associates, was completed in June 2016. It recommended a shift in focus that would stress HNZPT’s role as the leading advocate for heritage in New Zealand, giving greater emphasis to education and engagement. The review also recommended more emphasis on communicating the importance of Māori heritage, and stepping up engagement with iwi and hapū. Other recommendations addressed various matters including the future management of HNZPT’s property portfolio, and reviewing the New Zealand Heritage List/Rārangi Kōrero.

Andrew Coleman was appointed as HNZPT’s new chief executive and commenced in October 2016. A new organisational strategy is under development, in consultation with HNZPT’s key stakeholders. It is expected to be adopted by the board and the Māori Heritage Council in April 2017.

We welcome Mr Coleman’s appointment and wish him well in his work at a time of change and challenge for HNZPT.

Financial situation

In 2015/16, HNZPT’s total revenue was $16.652 million, a small increase on the previous year. Within this total, Crown revenue remained static at $12.988 million. Total operating expenditure was $15.698 million in 2015/16, down 4.5 percent from $16.439 million the previous year. Taking into account grant payments from the Canterbury Heritage Buildings Earthquake Fund and Trust ($1.7 million), and revaluation of heritage artefacts ($39,000), HNZPT reported a deficit of $785,000 in 2015/16.

In our last annual review, some of us expressed concern that the Crown had not increased its funding to the level necessary for HNZPT to meet its new responsibilities, and that public expectations about the preservation of New Zealand’s heritage were not being met.

HNZPT acknowledges that maintaining financial sustainability for its mandatory functions is a key strategic challenge. It has indicated that it may not be able to deliver on all expectations within its present resources. Crown funding has been static for several years and is not expected to increase in the foreseeable future.
HNZPT told us that it also expects the size and proportion of its non-Crown revenue to remain at a similar level in coming years, making up about 20 percent of total revenue. HNZPT is seeking to shift the makeup of that revenue, with less reliance on community grant funding and more direct income derived from its properties (entry fees, rents, merchandising, and functions), and from membership fees, donations, and bequests. It is working to maximise benefit from merchandising and retail ventures at heritage places. It would also like to increase memberships as a source of support and revenue.

We note the positive audit outcomes for HNZPT in 2015/16, and applaud its continued efforts to achieve its objectives with limited resources.

**HNZPT’s property portfolio**

HNZPT manages a portfolio of 48 properties. The Office of the Auditor-General (OAG) advised us that, while HNZPT is meeting or exceeding its performance targets for property management, HNZPT has noted in its statement of general policy for properties management that its responsibilities in this area continue to exceed the resources it has to meet them. HNZPT has been funding some maintenance of properties from reserves as a short-term measure, while it seeks alternative revenue streams for this work. HNZPT told us that it was working on the development of a stronger commercial delivery model and structure for its property management functions.

**Advocacy and working with local authorities**

HNZPT emphasised to us that, in response to the recommendations of the 2016 review, advocacy for heritage had become a major focus of its work. All its systems were now organised to support its advocacy work. HNZPT noted that its role is an advisory one, and that the heritage listing of properties does not enforce their protection—this depends on local authorities acting to protect heritage through their district plans and heritage listings under the Resource Management Act 1991 (RMA). HNZPT must therefore be much more proactive in early intervention and regular dialogue with councils, particularly in relation to Category 1 places of special or outstanding significance. At the same time, communities must support protection of their heritage buildings.

HNZPT identified a lack of consistency across the country in the way local authorities view and deal with heritage. HNZPT is working to increase recognition of heritage in district plans to try to counter this and achieve greater consistency across local authorities. It is aware of the need to be sensitive to the autonomy of local communities, but is working to build awareness so that if councils do not place heritage buildings on the protected schedule, this at least reflects a considered decision not to do so, rather than a blind omission.

HNZPT said it is making progress on advocacy, within its limited funds. It told us that most councils have a reasonably positive view about heritage protection, and the system has a good chance of success without the need for a more coercive approach.

**Māori heritage**

The 2014 Act restructured the Māori Heritage Council, giving it a separate board and responsibilities. The council is charged with the identification and conservation of heritage of particular significance to Māori, and ensuring that HNZPT meets the needs of Māori in a culturally sensitive manner.
The chair of the Māori Heritage Board told us that the board is working on a paper elaborating its vision for Māori heritage, which would be a milestone document for the organisation and of great value to Māori and the public at large. The “tapuwea” (footprints) document was released on 8 March 2017. HNZPT also undertook several major projects with Māori in 2015/16.

HNZPT noted that Māori heritage is mainly about land sites rather than buildings, and that places of ancestral significance (wahi tūpuna) are now a new category of heritage under the Act. HNZPT sees it as important to work with local authorities to improve relationships and address the very low rate of recognition of Māori heritage sites. One challenge is that the existing provisions of the RMA make it harder for councils to list land heritage than buildings.

Under the new arrangements, HNZPT has taken on an increased workload arising from Treaty settlement obligations relating to historic heritage. It has not received any additional funding for this work. HNZPT assured the committee that resources were allocated to meet these mandatory obligations, with business planning allowing for re-deployment of resources from elsewhere within the organisation if required.

We asked how heritage buildings in Treaty settlement areas are managed during settlement processes. HNZPT said it is looking into this issue, and is doing more to make iwi aware of the services HNZPT can offer in relation to heritage buildings, such as architectural, engineering, and safety advice.

**Volunteers**

In our 2014/15 annual review, we discussed the negative impact that the disestablishment of HNZPT’s regional branches had on its volunteer base. In 2015/16 there was a decline in both the number of volunteers and the hours they contributed: 120 volunteers gave 14,800 hours, compared with 130 and 20,600 hours in 2014/15.

HNZPT told us that the decline in volunteer numbers and hours was due to the closure of a particular volunteer programme at one heritage property. Meanwhile, reconnecting with volunteers and mobilising new volunteer groups was a key goal in 2016. HNZPT continues to develop and offer volunteer opportunities across its properties and organisation, and is working toward a formal agreement with Historic Places Aotearoa, the group that had formed from the disbanded HNZPT branch committees.

**Earthquakes and heritage**

We reiterated concerns we have previously expressed about the demolition of heritage buildings in Christchurch after the Canterbury earthquakes. HNZPT recognised the additional difficulties posed for the protection of heritage in New Zealand by its vulnerability to earthquakes, and noted that its role was limited to advocacy in these cases.

HNZPT reassured us that plans for the restoration of the Lyttelton Timeball Station were funded and would proceed, once the road repairs around it were completed.

HNZPT welcomed the Government’s development of the new Heritage Earthquake Upgrade Incentive Programme (Heritage EQUIP), under which private owners of heritage buildings could apply for grants to strengthen them against earthquakes. The programme is to commence in the 2016/17 financial year.

We asked whether the lessons of the Canterbury earthquakes might be applied to ensure the conservation of heritage buildings in Wellington and elsewhere following the 2016
Kaikōura earthquake, HNZPT noted that in the recent earthquake most of the damage had occurred to modern buildings rather than historic ones.
Appendix

Committee procedure
We met on 14 December 2016 and 22 March 2017 to consider the annual review of Heritage New Zealand Pouhere Taonga. We heard evidence from Heritage New Zealand Pouhere Taonga. We received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Barry Coates
Paul Foster-Bell
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Heritage New Zealand Pouhere Taonga, Responses to written questions, received 25 November 2016 and 27 January 2017.
2015/16 Arotake ā-tau o Te Puni Kōkiri

Pūrongo a te Komiti o Ngā Take Māori

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Tūtohutanga

Kua oti i te Komiti o Ngā Take Māori te arotake ā-tau 2015/16 i te mahinga me ngā whakahaere onāianei a Te Puni Kōkiri, me te tūtouh kia aro mai te Whare ki tana pūrongo.

Kupu Whakataki

Ko Te Puni Kōkiri te kaitohutohu matua i te Karauna mō ngā whanaungatanga Karauna-Māori. He tuku tohutohu rautaki mō ngā take kaupapa here Māori, me te takawaenga haumi, kaupapa hoki hei hāpai ake i ngā hua pae ake mō te Māori. Ko Michelle Hippolite te pou whakahaere.

Tūnga pūtea

Ko te nuinga o ngā pūtea a Te Puni Kōkiri nō te Pōti Whanaketanga Māori. I te 2015/16, he $58.764 miriona ana pūtea (2 ōrau te nui ake i te tau o mua). He $55.836 miriona ngā whakapaunga, he $2.928 miriona te moni tuwhene more. I kite mātau kua rua ēnei tau i whai moni tuwhene te manatū.

I te wā o tana ētita 2015/16, e whā ngā tino take i whakapuakina e Te Mana Arotake Aotearoa (OAG) ka kōrero i te ārahi i raro nei. I kōrero mai te pou whakahaere kei te whakapaupu kaha te manatū kia te whakarite i ēnei māharahara i mua i te rauna arotake ā-tau 2016/17, ā, me tana kī anō ka taea e te manatū tēnei te whakaturutuki. Ka āta whaiwhai haere mātau i ngā māhi a te manatū mō ēnei tēnei.

Ārai whatitata

I te tau 2014, i arotakehia e KPMG te pou tarāwaho ārai whatitata a te manatū, me te tuku i ngā tūtohutanga maha. I kite te OAG kāore anō kia puta he hua, ā, ahakoa i kī te ngā kaitiāna i tētahi kaupapa here ārai whatitata me te mahere whakatinana, kua tawhito kē ēnei. E marama ana mātau he rēhita whatitata kei ētahi o ngā wāhanga pakihi o te manatū, engari kāore i te ērōte te whakamahia.

I pātai mātau ki te manatū mō tana ngoikore kia te anga whakamua i ēnei. I kī te mātau tuwhenua te manatū kia whakahaere kei te mahi hārei i roto i tana rōpū tumuaki. Kai ona whakaaro he teitei rawa pe a te taumata whatitata e tūmanakohia ana e KPMG kē tērā e taea ana e te manatū, no reira ko tētahi wāhanga o ngā māhi ēnei he whakarite i te taumata e tika ana. Ko te tūmanako o te manatū kia whiwhi ia i ngā kitenga a a KPMG kē tērā e taea ana e te manatū, no te Government Enterprise Risk Maturity Model i mua i te paunga o te tau 2016, ā, me tana whai kia tutuki he pou tarāwaho whakahaerenga whatitata pūmaturangi i mua o te Pipiri 2017.1

Whakahaerenga kirimana

I pātai atu mātau he aha te take kāore i whai te manatū i ngā tūtohutanga a te OAG mai i te ōtita o tērā tau e pē ana ki te whakatinana i tētahi kaupapa here whakahaerenga kirimana. I kī mai te pou whakahaere i te aro atu te manatū ki te whakaui i ngā tikanga pai rawa me te 1 Ka āwhina te Government Enterprise Risk Maturity Model i ngā whakahaerenga ki te tātari i ā rātau ake kaupapa whatitata e ai kē ngā tikanga pai rawa a te rāngai.
tuari kōrero i te tau 2016, engari kei te pūmāu ia ki tētahi whakapūkete ā-manatū whānui o ngā pūnaha me ngā tukanga i mua i te paunga o tēnei tau.

**Te pūrongo mahinga**

I pūrongo te OAG kua whakapaihia e te manatū ana pūrongo mahinga mai i te ōtita o tērā tau, engari me pai ake tonu te kounga o ngā whakaritenga mahinga putanga. I tēnei wā, he ine tātai te nuinga, ā, kāore e kitea atu te whānuitanga o ngā mahi a te manatū. I tono mātau ki te manatū kia urupare mai ki tēnei.

I ki mai te pou whakahaere nā te maha o ngā kaupapa rerekē a te manatū me ngā hoa pātui rerekē, he uaua te whakarite kia ōrite te rere mai o te kōrero. I te tau 2016, i whai ki te ine angitu i ngā wāhanga pūmāu e toru: whakapapa, whenua, me te whānau. Kei te tīmata ia ki te kohikohi raraunga mō ngā ia e piki ana i roto i ēnei wāhanga, me te tūmanako anō ka whiwhi ia i ngā kōrero raraunga hāngai hei whai i roto i te tau.

**Utu whakamutu mahi**

Ko te utu whakamutu mahi he utu e nui ake ki tērā e āhei ana te tangata i raro i tāna ake whakaaetanga mahi. He whakarite ka wehe te kaimahi i te whakahaere i runga i ngā whakaritenga i whakaehia. He whāhinga ngā tikanga whakaae a ngā tari kāwanatanga mō ngā utu whakamutu mahi.

I te whakahaaretanga a te OAG i tana ōtita, i whakaaroarohia e ia tētahi utu whakamutu mahi ki tētahi kaimahi. He tino rerekē tēnei utunga, ka mutu eha i te tikanga mahi pai i te mea kāore he tuhinga hei whakaaatutututu te tā ēte tēnā whakahaere ko te tikanga me tēna tuhanga me te kōrero whakamutu mahi, me te kōrero mai anō kua whakatinanahia ngā pūnaha kia kaua tēnei e pā mai anō. I rongo mātau i tuhi atu ia ki te Kōmihana o Ngā Tari Kāwanatanga ki te whakamārama i tēnei āhuatanga.

**Te rata a te Minita ki ngā tohutohu kaupapa here**

Ka tātari te The New Zealand Institute of Economic Research (NZIER) me te Minita i te kounga o ngā tohutohu kaupapa here manatū. I te 2015/16, ahakoa he 70 ōrau te tatau aromatawai kounga a te NZIER, he 41.1 ōrau te rata a te minita. Kei raro rawa atu tēnei i te ūnga o te 70 ōrau. Ahakoa tēnei, ko te utu o te putanga kaupapa here ā-haora he $179, he teitahi ake tēnei i te tahua o te $155 i te haora. Ka āta aroturuki haere tonu mātau i ēnei take e rua.

I pātai mātau ki te manatū kei te aha ia ki te whakapai ake i ana tohutohu kaupapa here. I kōrero te pou whakahaere mō ētahi wāhi i tino teitei te kounga o ngā kaupapa here, pēnei i Te Ture mō Te Reo Māori 2016 me te Pire Ture Whenua Māori. Engari, i whakaae ia me whakapai haere tonu, ā, kua ngākau titikaha ia mō ngā whakapakaritanga kua oti i tēnei wā. Kua whakaurua mai e te manatū ngā tukanga hei whakapai ake i te kounga o ngā kōrero, ā, kei te mahi anō ia ki te whakapai ake i te kaha me te aheinga kia nui ake ngā mahi ka taea e ia.

**Ngā mahi kirimana**

I kite te OAG i te whirinaki o te manatū ki ngā kairangaranga o kaitohutohu mō ētahi o ana mahi. I piki ngā whakapaanga ki ēnei wāhi e rua i te 2015/16, he $5.472 miriona i pau ki ngā kairangaranga, ā, he $3.932 miriona ki ngā kaitohutohu. I pātai atu mātau mēnā he whaitatata tēnei, ina he mahi matua nā te manatū te tuku tohutohu kaupapa here. Ko te urupare a te manatū he mana tino whānui tōna, ā, e hiahia aha ana ngā tohutohu mātanga mō te Whānau Ora, te reo Māori, te Pire Ture Whenua Māori, me Te Ratonga Whenua Māori.
Kei te mihi atu mātau ki te kounga teitei o ngā kaitohutohu i mahi tahi me mātau mō te Pire Ture Whenua Māori.

**Whānau Ora**

He kaupapa ā-whānau te Whānau Ora e whai ana ki te whakamana i ngā whānau kia pai ake ai ngā putanga hauora, mātauranga, whare noho, whanaketanga pūkenga, ōhanga hoki. Ko te manatū te tari whakahaere mō Whānau Ora.

Kua whakaae te Rōpū Pātuitanga Whānau Ora, he pātuitanga iwi-Karauna kaïrahi rautaki i te Whānau Ora, ki ngā putanga e whitu e kī ana me puta ngā ihu o ngā whānau e mana ai tā rātau tū i ngā rā e tū mai. E ono o ēnei putanga i tūtuhitia e te Rōpū Whakapūmau i Ngā Kaupapa Whānau (Taskforce on Whānau-Centred Initiatives) i te tau 2010, nā ngā hui 22 puta noa i te motu.2

I kite mātau i roto i ngā otinga mō ngā whānau e angitu ana te whai wāhi mā i ki te ao Māori kei te tīno iti ake mō ētahi atu wāhi, ā, ka pātaihia he aha ngā mahi kei te whāia ki te whakapai ake i ngā otinga. Ko te kōrero a te pou whakahaere he nui ake te āro a ngā whānau ki te whakatau i ngā mea nui rawa ki a rātau, kaua ki ngā whāinga a whakatauhia ana e te manatū.

I pātai anō mātau mēnā i oti ētahi mātai take hei whakaatu mēnā kei te ū tonu ngā whānau ki ngā kaupapa matua. I rongo mātau kei te mahi tahi a Whānau Ora me ngā whānau kia mōhio tonu ai ki hea noho ai ngā kaupapa matua. I te mea ko ngā whānau tonu kei te tautahi, āra, mai i te tangata kotahi tae atu ki tētahi whānau whānui, ko te āhua nei ka neke ngā kaupapa matua e ai ki ngā hiahia o ia whānau.

**Ngā rangapū Kōmihana**

E toru ngā rangapū kōmihana kua whakaritea e Whānau Ora, ko Te Pou Matakania, Pasifika Futures, me Te Putahitanga o Te Waipounamu, hei whakarato i ngā kaupapa Whānau Ora. I te 2015/16, i whakawhiwhia ngā rangapū kōmihana ki te $46.562 miriona.

Ko tā mātau pātai he pēhea te ine i te whai kiko o ngā rangapū kōmihana, ā, mēnā kei te ū rātau ki ā rātau whāinga. Ka tuku pūrongo ngā rangapū kōmihana ki te minitia i ia hauhā, ā, e herea ana ki te whakauru mai i ngā kōrero mō ngā putanga i tutuki i te whānau nā runga tonu i ērā rātau kakama. E herea ana ngā rangapū ki te pupuri i ngā pūranga kōrero mō ērā rātau mahi, tae atu ki ngā whakaaturanga o ngā arotu īhāpai, ngā whakatau haumi, ngā tahua, me ngā tātai mahinga.

I kī te pou whakahaere kei te whakapau kaha te manatū ki te āwhina i ngā rangapū kōmihana kia őrīte ā rātau tukanga pūrongo hei whakarite kia őrīte te whakaaroarohia o ngā otinga. E tautoko ana mātau i ngā mahi a te manatū kia őrīte te pūrongo a ngā rangapū kōmihana i te mea ki ō mātau whakaaro he mea nui te mōhio ki ngā mea ake kei te āwhina i ngā whānau e taea paihia a ā rātau putanga. Ka āta tirotiro mātau i ngā mahi a te rangapū mō tēnei.

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I kite anō mātau, i muri i tēnei whakawātanga, i puta i te manatū ki tana paetutukutuku tētahi pūrongo mō te aromātai tuatahi o te tauira rangapū kōmihana Whānau Ora.3 I te pai ki te manatū te mahi a ngā rangapū.

Te ārai i te whakamomori a te Rangatahi

Neke atu i te rearua ngā tatau o te whakamomori a te Māori ki ērā o tauiri. Ko ngā rangatahi 15–24 tau te hunga ka tino riro i te whakamomori. I pātai mātau mō ngā kōrero hou e pā ana ki te Tahua Ārai Whakamomori a te Rangatahi Māori, i whakatūhia i te tau 2015. I rongo mātau he $2.1 miriona i tohaina ki ngā kaupapa hapori he whai wāhanga kaiārahi rangatahi, tae atu ki ngā wānanga marae, ngā rauemi tuihono, me ngā kaupapa ā-takatāpui. I ki te pou whakahaere kei te aro ni atu ki te tautoko i ngā ratonga kua tū kē. I ki anō ia he nui ake te whakamomori a te rangatahi kia whakapuaki nei he LGBTIQ rātau me te ārahi i te whakamomori.

Whare noho

I te Whiringa-ā-nuku 2015, i whakatūhia e te manatū te Kōtuinga Kāinga Māori hei whakapai ake i te kounga me te rato o ngā whare noho, te whakapiki i te kaha o te Māori i roto i te rāngai whare noho, me te tautoko i ngā kaupapa whare noho ohotata. He $14.491 te tahu i te tau te Kōtuinga Kāinga Māori, ā, i whakaaehia anō he pūtea neke atu i te $32 miriona mai i tōna whakarewatanga.

Kei te mōhio mātau kua neke atu i te hiahia tapeke mō ngā tapitapi whare, hanganga, me ngā whanaketanga papakāinga i te pūtea a te Kōtuinga Kāinga Māori mō te tau. Nā tēnei, kei te ngana te manatū ki te tūhono me ētahi atu hiahia. He $14.491 te tahu i te tau te Kōtuinga Kāinga Māori, ā, i whakaaehia anō he pūtea neke atu i te $32 miriona mai i tōna whakarewatanga.

Takaongo ā-whare


I pātai mātau he pēhea te mahi tahi a te manatū i ngā whare noho. He $14.491 te tahu i te tau te Kōtuinga Kāinga Māori, ā, i whakaaehia anō he pūtea neke atu i te $32 miriona mai i tōna whakarewatanga.
Marae o Manurewa hei whakarato whare noho ohotata mō te toru marama. I rongo mātau kei te whakahaere mātai take te manatū kia mōhio ai he aha i riro ai mā te marae ngā hiahia o ngā whānau i tēnei āhuatanga e whakaeke, e tika ana mā ngā tari whai kawenga kē.

I kōrero te pou whakahaere kāore i te tino kitea e te īwi whānui ngā mahi a te manatū ki te tūtaki i ngā take pēnei i te takaonga ā-whare. I kī ia kei te ngana te manatū ki te whakapai ake i tēnei, otirā i ngā rohe.

**Ngā whare noho hou me ngā papakāinga**

I rongo mātau e 35 ngā whanaketanga papakāinga me ngā whare 41 i utua e te pūtea a te Kōtuinga Kāinga Māori mō ngā whānau i te 2015/16. E ono ngā whare kua oti, 12 ka oti i te 2016/17, ā, 23 ka oti i mua i te paunga o te 2017/18.

I pātai mātau mō te Kaupapa Pūtea Taurewa Kāinga Whenua, he kaupapa tēnei i waenga i a Kiwibank me Te Kaporeihana Whare o Aotearoa hei āwhina i te Māori ki te whiwhi whare mō rātau ake i ngā papakāinga. Kei te whirihirihiri te manatū mēnā ko tēnei kaupapa te momo pūtea āwhina tika mā ngā whanau, nā te mea he iti ake te whakauru mai ki tērā i tūmanakohia.

**Ngā tapitapi me te tiaki**

E whakarato ana te Kōtuinga Kāinga Maori i ngā ratonga tapitapi me te tiaki mā ngā whānau. I te 2015/16, e 243 ngā kāinga whānau i whiwhi tautoko tapitapi. I pātai mātau mō ngā whakaratonga o ngā ratonga tapitapi, otirā i ngā wāhi taiwhenua. I kī te pou whakahaere kua tino kaha te tipu o te hiahia ki ngā ratonga tapitapi, nō reira kua whakaae te Minita kia nui ake ngā rawa ka nekehia hei whakarite i tēnei hiahia.
Tāpiritanga

Hātepe a te komiti
I hui mātau i te 30 o Whiringa-ā-rangi 2016 me te 8 o Huitanguru 2017 ki te wherawhera i te arotake ā-tau i Te Puni Kōkiri. I rongo mātau i ngā whakaaturanga mai i te manatū me te whai tohutohu mai i Te Mana Arotake Aotearoa.

Ngā mema o te komiti
Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Peeni Henare
Pita Paraone
Dr Shane Reti

Ngā tohutohu me ngā whakaaturanga i tae mai
Ko ngā tuhinga i whiwhi mātau hei tohutohu, whakaaturanga hoki mō tēnei arotake ā-tau ka noho wātea mai i te paetukutuku a te Whare Pāremata www.parliament.nz. E rārangitia ana i raro nei:

Te Mana Arotake Aotearoa, He Kōrero mō Te Puni Kōkiri i te 16 o Whiringa-ā-rangi 2016.

Te Puni Kōkiri, ngā whakautu ki ngā pātao noa me ērā o muri i te whakawātanga.
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Ministry of Māori Development

Recommendation
The Māori Affairs Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Māori Development, and recommends that the House take note of its report.

Introduction
The Ministry of Māori Development, also known as Te Puni Kōkiri, is the principal adviser to the Crown on Crown–Māori relationships. It provides strategic advice on Māori policy issues, and facilitates investments and initiatives to promote better results for Māori. Michelle Hippolite is the chief executive.

Financial position
The ministry is funded mainly through Vote Māori Development. In 2015/16, its revenue was $58.764 million (2 percent more than the previous year). Expenditure was $55.836 million, resulting in a net surplus of $2.928 million. We note that this is the second year in a row that the ministry has had a surplus.

During its 2015/16 audit, the Office of the Auditor-General highlighted four significant issues that are discussed below. The chief executive assured us that the ministry is working to address these concerns by the 2016/17 annual review round, and said that she is confident in the ministry’s ability to do so. We will follow the ministry’s progress with interest.

Risk management
In 2014, KPMG reviewed the ministry’s risk management framework, and made several recommendations. The OAG noted that no tangible progress had been made, and that although the auditors saw a risk management policy and implementation plan, they were out of date. We understand that some of the business units within the ministry maintain their own risk registers, but their use is inconsistent.

We asked the ministry to explain its lack of progress. The chief executive said that the ministry is working through the recommendations within the executive team. She suggested that the level of risk maturity expected by KPMG is potentially too high for the ministry’s capabilities, so part of the current work is to determine the most appropriate level. The ministry expects to receive findings from the Government Enterprise Risk Maturity Model by the end of 2016, and aims to have a solid risk management framework by June 2017.4

Contract management
We asked why the ministry had not followed the OAG’s recommendations from last year’s audit regarding the implementation of a contract management policy. The chief executive

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4 The Government Enterprise Risk Maturity Model helps organisations assess their risk maturity programmes against industry best practice.
said that the ministry had focused on establishing best practice and information sharing during 2016, but it has committed to a ministry-wide documentation of the systems and processes by the end of this year.

**Performance reporting**

The OAG reported that the ministry has improved its performance reporting since last year’s audit, but it said that the quality of output performance measures still needs to improve. At present, it is largely quantitative and does not give a full picture of the ministry’s activities. We asked the ministry to respond to this report.

The chief executive said that because the ministry has a variety of initiatives with different partners, it can be hard to achieve a consistent flow of information. In 2016, it has sought to measure success in three concrete areas: whakapapa, whenua, and whānau. It is starting to collect data on the trends arising within these areas, and hopes that in two years it will have statistically relevant information to work from.

**Employment severance payment**

A severance payment is a payment greater than what a person is entitled to under their employment agreement. It ensures that an employee leaves an organisation on agreed terms. Government departments have specific approval procedures for severance payments.

When the OAG conducted its audit, it considered a severance payment made to a staff member. This payment was highly unusual and not good business practice because there was no documentation to show that the ministry had complied with the approval procedures. The chief executive acknowledged that the process around that severance payment should have been double-checked, and assured us that systems have been implemented to ensure that this does not happen again. We heard that she has written to the State Services Commission to explain the situation.

**Ministerial satisfaction with policy advice**

The New Zealand Institute of Economic Research (NZIER) and the Minister assess the quality of the ministry’s policy advice. In 2015/16, although the NZIER’s quality assessment score was 70 percent, ministerial satisfaction was 41.1 percent. This is well below the target of 70 percent. Despite this, the cost of policy output per hour was $179, which is higher than the budget of $155 per hour. We will monitor both of these issues with interest.

We asked what the ministry is doing to improve its policy advice. The chief executive pointed to some areas where policy advice has been of high quality, such as for Te Ture mō Te Reo Māori (the Māori Language Act) 2016, and Te Ture Whenua Māori Bill. However, she acknowledged that there is room for improvement, and was confident about the progress made so far. The ministry has put processes in place to improve the quality of information, and is working to improve its capacity and capability to take on more work.

**Contracting out**

The OAG noted that the ministry continues to rely on contractors and consultants for some of its work. Spending on both increased during 2015/16, with $5.472 million spent on contractors, and $3.932 million on consultants. We asked whether this was a risk, given that providing policy advice should be a core role of the ministry. The ministry responded
that it has an extremely wide mandate, and specialist advice was needed for Whānau Ora, te reo Māori, Te Ture Whenua Māori Bill, and the Māori Land Service.

We would like to acknowledge the high quality of the advisers who worked with us on Te Ture Whenua Māori Bill.

**Whānau Ora**

Whānau Ora is a whānau-centred initiative that aims to empower whānau to achieve better health, education, housing, skills development, and economic outcomes. The ministry is the administering agency for Whānau Ora.

The Whānau Ora Partnership Group, which is the iwi–Crown partnership that provides strategic leadership to Whānau Ora, has agreed on seven outcomes that whānau should be achieving so that they are empowered into the future. Six of these outcomes were recommended by the Taskforce on Whānau-Centred Initiatives in 2010, as a result of 22 hui around the country.\(^5\)

We noted that the results for whānau participating confidently in te ao Māori (the Māori world) are significantly lower than in other areas, and asked what is being done to improve the results. The chief executive said that the focus is more on whānau prioritising what matters to them, rather than just achieving targets set by the ministry.

We asked whether there are case studies to show whether whānau are still engaged with the priorities. We heard that Whānau Ora is working with whānau to maintain an understanding of where the priorities should lie. Because a whānau is self-identifying, and can be anything from an individual to an extended family, it is likely that priorities will shift depending on the needs of each particular whānau.

**Commissioning agencies**

Whānau Ora contracts three commissioning agencies, Te Pou Matakana, Pasifika Futures, and Te Pūtahitanga o Te Waipounamu, to deliver Whānau Ora initiatives. In 2015/16, the commissioning agencies were allocated $46,562 million.

We asked how the effectiveness of the commissioning agencies is measured, and whether they are meeting their objectives. The agencies report to the ministry quarterly, and are required to include information on outcomes achieved by whānau as a result of their initiatives. The agencies are also required to maintain records regarding their activities, including evidence of the intervention logic, investment decisions, budgets, and performance measures.

The chief executive said that the ministry is working to help the commissioning agencies standardise their reporting processes to ensure that the results are considered consistently. We support the ministry’s efforts to standardise the commissioning agencies’ reporting because we think it is important to maintain an accurate picture of what actually helps whānau to achieve better outcomes. We will monitor the agencies’ progress with interest.

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We note that, after this hearing, the ministry released to its website a report on the formative evaluation of the Whānau Ora commissioning agency model. The ministry was satisfied with the performance of the agencies.

**Rangatahi suicide prevention**

The rate of Māori suicide is more than double that of non-Māori. Rangatahi (youths) aged 15–24 are the most likely to commit suicide. We asked for an update on the Rangatahi Māori Suicide Prevention Fund, which was established in 2015. We heard that it allocated $2.1 million to community-focused initiatives with a strong rangatahi leadership component, including marae wānanga, online resources, and takatāpui-focused programmes. The chief executive said that there was a focus on contributing to pre-existing services. She also identified the higher rates of suicide for rangatahi who have come out as LGBTIQ without whānau support, and said that this was a particular area of focus.

**Housing**

In October 2015, the ministry established the Māori Housing Network to improve the quality and supply of housing, build the capability of Māori within the housing sector, and support emergency housing projects. The Māori Housing Network has an annual budget of $14.491 million, and has approved funding of more than $32 million since its launch.

We are aware that the total demand for housing repairs, infrastructure, and papakāinga development has exceeded the Māori Housing Network’s funding for the year. As a result, the ministry is trying to partner with other agencies that have greater resources to meet the demand for housing. An example of this is the ministry’s work with the Ministry of Social Development, which has the primary responsibility for emergency housing, to get the best value from available funding, and to ensure that whānau needs are taken into consideration. The ministry has supported eight emergency housing projects since the network was established.

**Housing deprivation**

The ministry has prioritised reducing Māori over-representation in housing deprivation. Staff of the Māori Housing Network work directly with iwi, hapū, and whānau, and share information with other organisations like Housing New Zealand Corporation, the Ministry of Social Development, Māori housing organisations, and local government.

We asked how the ministry works with local agencies to help combat housing deprivation. We heard that staff help whānau determine their needs and aspirations, and then work with them to develop a proposal for funding. The chief executive gave anecdotal evidence that this is working particularly well in Rotorua. The ministry then gathers insights from staff and whānau as part of its data-collecting. Once this data has been properly collected and analysed, we hope that it will become publicly available.

In 2016, Te Puea Marae and Manurewa Marae started initiatives to combat housing deprivation in Auckland. We asked how the ministry had contributed to those projects. The ministry donated $10,000 to Te Puea Marae, and contracted with Manurewa Marae to provide emergency housing for three months. We heard that the ministry is conducting

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case studies to determine why the needs of whānau in this situation had to be met by the marae, rather than the responsible agencies.

The chief executive pointed out that the ministry’s efforts to combat issues like housing deprivation are often not visible to the public. She said that the ministry is trying to improve this, especially in regional areas.

**New housing and papakāinga**

We heard that the Māori Housing Network funded 35 papakāinga developments and 41 housing units for whānau in 2015/16. Six of the housing units have been completed, with another 12 scheduled to be completed by the end of 2016/17, and 23 by the end of 2017/18.

We asked about the Kāinga Whenua Loan Scheme, which is an initiative between Kiwibank and Housing New Zealand to help Māori achieve home ownership on papakāinga. The ministry is considering whether this scheme is the right type of financial assistance for whānau, as the uptake has been less than expected.

**Repairs and maintenance**

The Māori Housing Network provides repair and maintenance services for whānau. In 2015/16, it supported repairs to 243 whānau homes. We asked about the provision of repair services, particularly in rural areas. The chief executive said that demand for repair services has grown substantially, so the Minister has agreed to shift more resources to address this need.
Appendix

Committee procedure
We met on 30 November 2016 and 8 February 2017 to consider the annual review of the Ministry of Māori Development. 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 Davidson
Kelvin Davis
Marama Fox
Peeni Henare
Pita Paraone
Dr Shane Reti

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Ministry of Māori Development, responses to standard and post-hearing questions.
2015/16 Annual review of the New Zealand Film Commission
Report of the Government Administration Committee

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New Zealand Film Commission

Recommendation
The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Film Commission, and recommends that the House take note of its report.

Introduction
The New Zealand Film Commission is an autonomous Crown entity. It allocates funds provided by the Crown and the Lottery Grants Board in line with the New Zealand Film Commission Act 1978.

The Commission has five main areas of activity:
- talent development
- development and production
- marketing
- international screen business attraction
- screen incentives and international relations.

The Commission is working to grow the New Zealand film industry, and seeks to tell New Zealand stories through film.

Leadership
Kerry Prendergast is the chair of the Commission. Dave Gibson is the chief executive.

Financial and service performance
The Commission is funded by the Government through the Ministry for Culture and Heritage (MCH) and the Ministry of Business, Innovation and Employment. It also receives funding from the Lottery Grants Board.¹

In July 2015 Film New Zealand (Film NZ) was integrated into the Commission. The Commission’s financial statements for 2015/16 combine the results of the Commission and Film NZ.

The consolidated total income for the Commission in 2015/16 was $41.5 million, up from $31.6 million in 2014/15. Total expenditure was $38.1 million, compared with $33.8 million in the previous financial year. The resulting surplus in 2015/16 was $3.4 million. This compares with a deficit of $2.3 million in the previous year.

The Office of the Auditor-General considers that the Film Commission is “well-run”. The Auditor-General assessed the Commission’s management control environment and financial information systems as “very good”. The Commission’s performance information and associated systems and controls were rated as “good”.

¹ For an overview of the Commission’s funding sources, see page 10 of its 2015/16 Annual Report.
The Auditor-General noted that there were a few measures that the Commission did not
report against. To improve in this area, it recommended that when developing performance
measures, the Commission should ensure that it is able to report against each proposed
measure. If a measure is not intended to be reported annually, this should be made clear in
the Statement of Performance Expectations (SPE). We hope to see this recommended
improvement carried out.

The Auditor-General also noted that the Commission’s 2015/16 performance framework
does not consistently distinguish between impact and output measures. We were pleased to
see that this has been addressed in the Commission’s 2016/17 SPE.

The Commission’s role and allocation of resources

We discussed the Commission’s role, and how it makes decisions about resource allocation.

The Commission largely bases its own success on the success of the New Zealand screen
industry. It uses the analogy of the alignment of “five planets” to describe its vision and to
set benchmarks. These are:

- pathways and careers for people
- increased economic activity
- more eyeballs on films here and overseas
- culturally significant films
- amazing, original, different, satisfying films.

The Commission said that its mandate from Government is to grow the capability and
capacity of New Zealanders in the industry.

Screen incentives

The Commission administers the New Zealand Screen Production Grant. This came into
effect on 1 April 2014, replacing the Screen Production Incentive Fund and Large Budget
Screen Production Grant. The Commission believes that these changes are having a
positive impact on the number of screen projects in production. It expects that the changes
to the structure and level of support will lead to more productions taking advantage of the
increased financial assistance for mid-budget New Zealand and international productions.

Third party investment

We heard that helping filmmakers to find good market partners and investors has become
an essential part of the Commission’s business. We asked it to elaborate, and explain the
changes it has made in order to work more effectively regarding third party investment.

The Commission observed that the private investment made available to New Zealand
productions has increased in recent years. It encourages this. However, for any production
with funding from the Commission, it must approve the terms of all other investment in
the production. One way the Commission attempts to make private investment an
attractive prospect is to put investors in a position superior to its own. The information
sheet outlining the Commission’s acceptable private investment terms says that it will
consider allowing private, at-risk money to recoup in a priority position. The documentary
“Chasing Great” was an example of a film that received a significant amount of private
investment.
Sustainability of the Commission’s business model

We noted that the Commission receives a substantial portion of its funding from the Lottery Grants Board (about $13.4 million in the year under review). This funding can fluctuate, so it cannot always be relied upon.

We asked about the sustainability of the Commission’s business model. We are aware that the amount of income that it receives from films is relatively small—about $1.6 million in 2015/16. We therefore wanted to know whether it considers its returns from films to be adequate.

The Commission said that it does not count on profit from films, acknowledging that it is a tough business. It receives about $5 million in funding directly from MCH, and the remainder from the Lottery Grants Board. For this reason, it budgets conservatively from the outset and monitors it throughout the year. The Commission told us that it is learning to manage the peaks and troughs of the lotteries funding, and that it feels “reasonably comfortable” with its funding situation long-term.

It added that it holds some money in reserve should it be necessary. We heard that it used these reserves when lottery sales dropped in 2015 and there was concern that the trend might continue.

Development: focus areas

Increasing diversity

The Commission considers that diversity, both in front of and behind the screen, is one of the biggest issues it is working to address. It seeks to increase its visibility, and target a wider range of groups who may not be aware of what it has to offer.

In its annual report, the Commission notes that talent development is about finding, fostering, connecting, and progressing screen talent. We heard that one of the responsibilities of the talent development team is to find interesting voices. The funding and support provided by this team, alongside the Commission’s diversity strategy, is helping to grow diversity in the industry talent pool.

Gender imbalance in the New Zealand film industry

There is an under-representation of women in key creative roles in the New Zealand film industry. We congratulate the Commission on making it a priority to address this imbalance. We asked for more detail about its work in this area.

The Commission said it is doing a number of things to promote gender equality. It publishes statistics reflecting the gender imbalance in the industry on its website, to make the issue clear. It is proactive in supporting a higher proportion of women into specific training and professional development opportunities. Of those who received funding through talent development in 2015/16, 58 percent were female. The Commission has also announced its second gender scholarship, supported by Gaylene Preston, which is designed to support female directors.

Moreover, we heard about a project called “Waru”, which consists of funding for a series of eight short films directed by Māori women, with follow-up workshops. The intention is to combine them into a feature film that the Commission could use to promote the directors.
International connections

In 2015/16, the first official co-production with China was approved. “Beast of Burden” is an animated feature-film collaboration between New Zealand’s Huhu Studios and China Film Animation.

The Commission believes that international connections are increasingly important. It told us about a film called “Meg”, financed in part by the United States and China. Although the film is not officially a co-production, it is an extension of that activity. The location for filming was a factory in Kumeu, north of Auckland. After production, the Commission was able to negotiate a deal to establish the set as a permanent film studio, with “very little contribution from the public sector”. The 27ha site includes the first film studio water tanks in New Zealand. One of the partners involved in the deal (Auckland Tourism, Events and Economic Development) considers that the new infrastructure and increased studio capacity are an asset for advertising Auckland as a screen production destination.

The Commission commented on the need to grow Asian talent in the New Zealand industry, particularly Chinese language skills. We heard that it is actively working to grow the capability needed to tell the stories of New Zealand’s Asian population.

Budget bid

We heard that because of the Commission’s success in attracting international productions to film in New Zealand, the demand on its funds has been greater than it expected. Accordingly, it has made a bid for Budget 2017 to support its work.

We were interested in how the bid would explain the Commission’s successes. It highlighted that it is important to tell New Zealand’s stories and showcase its culture and landscapes. It pointed out that the films The Lord of the Rings and The Hobbit still attract large numbers of international visitors to New Zealand. Additionally, the Commission reiterated that the new infrastructure in Auckland is a tangible asset for film production.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of the New Zealand Film Commission. We heard evidence from the Commission and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Barry Coates
Paul Foster-Bell
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on the New Zealand Film Commission, dated 8 March 2017.

New Zealand Film Commission, Response to written questions 1–102, received on 6 March 2017.

New Zealand Film Commission, Response to additional written questions 103 – 111, received on 16 March 2017.
2015/16 Annual review of Radio New Zealand Limited

Report of the Commerce Committee

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Radio New Zealand Limited

**Recommendation**

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Radio New Zealand Limited, and recommends that the House take note of its report.

**Introduction**

Radio New Zealand (RNZ) is a Crown entity established under the Radio New Zealand Act 1995. It broadcasts in New Zealand over three networks: RNZ National, RNZ Concert, and an AM network that broadcasts parliamentary proceedings. It also broadcasts internationally via its overseas shortwave service, Radio New Zealand International.

RNZ is owned on behalf of the Crown by the Minister of Finance and the shareholding Minister. The board is chaired by Richard Griffin, and Paul Thompson is the chief executive.

**Financial performance and priorities**

Radio New Zealand received total income of $38.476 million for 2015/16 (3.7 percent less than in the previous year). Government funding and fees provided 92 percent of this income. Its total expenditure was $43.136 million—4.4 percent more than in the previous year—resulting in a net operating deficit of $4.7 million before tax.

We heard that RNZ had budgeted for a $1 million deficit, but had a number of unexpected one-off costs, including investments related to restructuring, the demolition of an AM transmission mast at its Titahi Bay station, the writing-down of its CD library asset, and $1.6 million spent on severance as part of the restructuring.

RNZ’s financial priorities for 2016/17 are to return to a break-even position, to provide capital to invest in new technology, equipment, and modernisation, and to continue to fund new digital initiatives.

**Audit opinion**

The Auditor-General issued an unmodified audit opinion. It graded RNZ’s management control environment, its financial information systems and controls, and its performance information and associated systems and controls as “good”.

The Auditor-General commented that RNZ performed well in 2015/16 and its balance sheet remains strong. It met or exceeded its performance targets, achieved strong audience figures, and had its highest ever approval ratings. However, the auditors consider the break-even position a challenging target. They said that RNZ will continue to face cost pressures, and its financial sustainability in the longer term remains a significant challenge.

**Financial sustainability**

Radio New Zealand was confident that its budget would be in balance as at the end of 2016/17. To achieve this, it was working to significantly reduce staff costs and achieve operational efficiencies (including a reduction in rented office space in Wellington).
We commended RNZ on its positive steps to cut costs and improve performance. We understand that it achieved a 6.7 percent reduction ($2.8 million) in its operating cost base in 2015/16. However, we recognise that there are limits to how far it can reduce costs, and asked whether it would be seeking financial support for the future.

RNZ’s chair said it would need more funding if it was to grow and meet its goals. He said that it will be asking the Government for a “comprehensive” funding increase to enable it to grow after significant restructuring in 2015/16.

Transformation and change within the organisation

Restructuring results

As a result of the restructuring, 47 staff were made redundant in 2015/16. Staff numbers are now 263, down from 302 in 2011/12. We were told that RNZ did not envision further restructuring of the type it had undergone, and that the number of staff is currently at an appropriate level. RNZ said the restructuring has given it a new future-facing approach, and it is seeing positive results through excellent audience responses, reduced costs, increases in content production, and new strategic partnerships.

Assets

We heard that RNZ is finalising the sale of its Auckland building and intends to lease back the space it currently occupies. It expected this to be settled in April 2017. RNZ said its strategy focuses on providing quality content and building its audience, and that the responsibility of owning and managing a multi-floor office building diverts resources from its intended goals. We heard that monies received from the sale of the building will be returned to the consolidated fund. Labour and Green Party members believe this money should go to RNZ.

RNZ told us it does not have a formal asset management plan, but it expects to replace the majority of its assets over the next 3 to 5 years as the organisation continues to modernise and develop forward-looking, technology-light strategies. It assured us that any sale of assets would be for the purposes of restructuring and enabling new approaches, rather than as part of an attempt to keep the organisation afloat. RNZ is focusing on content, journalism, audience development, on radio and online. Managing assets is not core to its strategy. Some of us expressed concern about the lack of an asset plan. RNZ believes a better use of its limited resources is to develop a plan to replace and upgrade its equipment as soon as possible.

Online content performance and new media environment

In 2016, RNZ relaunched its website, and intends to further invest in it, as well as other new media platforms, such as mobile apps and social media channels. In mid-2017 it intends to relaunch its mobile apps to include written and visual content alongside its current audio content, as well as user-personalisation options.

We heard that the RNZ website has 1.6 million monthly users, a figure that is growing at 40 percent a year. The RNZ iPhone app has about 30,000 weekly users. Usage numbers for the Android app were not available.

In keeping with its commercial-free status, RNZ does not display ads on its website. However, it generates a small amount of revenue from other media outlets that reuse its content. RNZ estimated that the amount was around $30,000 and emphasised that it was “not enough to rely on”. It noted that it sees the amount increasing in future, and said it
Māori content strategy and multicultural efforts

We heard that RNZ has made a commitment in its Statement of Performance Expectations to lifting performance around Māori content and reporting, featuring more te reo Māori in its programming, and building te reo skills within the organisation. RNZ said that its Māori content is one of the most successful elements of its online content.

RNZ has recently launched its Henare te Ua Māori Journalism Internship initiative, which is designed to bring more te reo speakers into the organisation.

We heard that RNZ does not have any initiatives for increasing the amount of multicultural content and staff skills in other languages and cultures in New Zealand similar to its te reo Māori ones. However, because of New Zealand’s increasingly multicultural population it expects this to become more of a priority in the coming years. RNZ also highlighted its coverage of the Lunar New Year festivities as an example of its efforts to reflect New Zealand’s cultural diversity.

Shortwave service in the Pacific

The Australian Broadcasting Corporation (ABC) decided to end its shortwave service in the Pacific in January 2017. RNZ said that the vacuum created by ABC’s withdrawal has created an opportunity in the region for its own shortwave service, Radio New Zealand International. It said that this service has a potential audience reach of 2 million, which includes delivery to partner radio stations and TV stations via satellite and, increasingly, via its online service.

Emergency services and capabilities

One of RNZ’s key roles is to provide a lifeline utility during times of civil emergency. We consider it a vital service in this respect. We heard that its reporting on the Kaikōura earthquake and the tsunami alert at the end of 2016 cost the organisation tens of thousands of dollars, but that the public response to, and engagement with, its services acted as an endorsement of its performance.

RNZ told us it is happy with its coverage of the earthquake, as well as its coverage of the Port Hills fires that were ongoing at the time of our hearing. However, the earthquake provided a reminder that there is an ongoing challenge to ensure that it is able to continue to function in the event of a disaster in the Wellington region. Currently, the organisation sees itself as being too reliant on Wellington for this reason. It intends to diversify some of its services over the next several years to counter this.
Appendix

Committee procedure
We met on 16 February and 16 March 2017 to consider the annual review of Radio New Zealand Limited. We heard evidence from Radio New Zealand, and received advice from the Office of the Auditor-General.

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

Advice and evidence received
The documents that we received as advice and evidence for this annual review, and the transcript of the hearing, are available on the Parliament website, www.parliament.nz. They are listed below:

Radio New Zealand, Responses to written questions 1–102, received 14 February 2017.
Radio New Zealand, Responses to additional written questions 103-119, received 2 March 2017.
2015/16 Annual review of Sport and Recreation New Zealand

Report of the Government Administration Committee

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Sport and Recreation New Zealand

Recommendation

The Government Administration Committee has conducted the annual review of the 2015/16 performance and current operations of Sport and Recreation New Zealand, and recommends that the House take note of its report.

Introduction

Sport and Recreation New Zealand (Sport NZ) is a Crown agent under the Crown Entities Act 2004. Its role is to promote, encourage and support physical recreation and sport in New Zealand. It is accountable to the Government through the Minister for Sport and Recreation.

Sport NZ is responsible for setting direction, and providing investment and resources to partners who deliver sport in their communities. This includes national sports organisations (NSOs), regional sports trusts, and local councils. A subsidiary of Sport NZ, High Performance Sport New Zealand (HPSNZ), is responsible for managing the country’s high performance programme. Together the two agencies form the Sport NZ Group.

The board of directors has nine members and is chaired by Sir Paul Collins. The senior leadership team has six members led by chief executive Peter Miskimmin.

Financial performance

During 2015/16 the Sport NZ Group received revenue of $128.970 million. Of this, 63 percent came from Crown funding, and 33 percent from the Lottery Grants Board. Total expenditure was $136.216 million, resulting in a deficit of $7.246 million. This was a planned deficit funded by reserves accumulated in prior years. Sport NZ forecasts a surplus of $1.8 million for 2016/17.

The Auditor-General rated Sport NZ’s management control environment and its financial information systems and controls as “very good”. Its performance information and associated systems and controls were rated “good”. We hope to see the organisation act on the auditor’s recommendations for improvements.

The Rio de Janeiro Olympics, 2016

We congratulated Sport NZ on the results of the Olympics Games in Rio de Janeiro. Rio 2016 was the most successful Olympics ever for New Zealand, with 18 medals won. This was more than had been expected.

The Paralympics were also hugely successful. New Zealand athletes won 21 medals, including 9 gold medals. This made New Zealand the top ranked nation in terms of medals won, per capita. Results from both the Olympics and Paralympics were seen by Sport NZ to validate the establishment of HPSNZ.

Integrity in sport

Doping charges laid against Russia at the 2016 Olympic Games presented challenges for Sport NZ. We heard that New Zealand was one of the first countries to sign up to the
world anti-doping code. Sport NZ had also introduced a new integrity framework in May 2016, and a comprehensive education programme around match fixing. The integrity framework focuses on educating people at a young age about the importance of integrity in sport, and aims to take a consistent approach to all issues that compromise integrity.

**Funding for sport in New Zealand**

Ninety percent of the money Sport NZ receives from the Government and the Lottery Grants Board goes to the front line.

Sport NZ said that the most significant determinant of its ability to invest into the sector is the level of funding it receives from the New Zealand Lotteries Commission. This is based on the annual net profits of Lotto New Zealand.

**Philanthropic contributions**

We heard that a programme called “BlackGold” had been dedicated to gaining funds from philanthropic contributions in the two and a half years leading up to the 2016 Olympic Games. The BlackGold programme aimed to raise $10 million and succeeded in raising $9.25 million for the sport sector, with $8.25 million going towards high performance sport.

**Return on investment**

Sport NZ shared our view that sport represents more than medals at the Olympic Games. It said that sport empowers young people and helps with self-esteem and resilience.

We asked how Sport NZ keeps the balance between achieving medals and recognition at a high performance level, and providing communities with facilities and sports. We note that these represent very different returns on their investment.

Sport NZ said the key thing is to encourage participation and foster a lifelong love of sport in New Zealanders. It said that high performance sport adds a lot of value because New Zealanders feel good about themselves. The challenge for Sport NZ is leveraging that back into the community.

Sport NZ has tried to measure the value provided through sport and active recreation. Measures include surveying New Zealanders on how they value these areas, and taking part in a cross-government social impact measurement group, led by the Treasury. Sport NZ has also provided detailed evidence-based modelling to underpin its Budget bid, setting out what will be achieved for young people and primary school teaching. This seeks to align its approach with outcomes sought by the ministries of Health and Education.

**Carding**

Carding is a way of identifying athletes who are eligible for performance support. HPSNZ and national sport organisations jointly consider and agree cases for carding status.

Not all athletes in New Zealand are carded, because Sport NZ takes a targeted approach. It says that managing the expectations of sport in New Zealand is a real challenge, and it must invest its limited resources in areas where it will receive the biggest gain.

Some of us raised concerns about the priorities around carding. It seemed inappropriate that members of the national women’s rugby team, the Black Ferns, had to support themselves through part-time work to participate in the women’s Rugby World Cup. In
contrast, members of the men’s Sevens team were carded even though they were paid professionals.

Sport NZ said that all funding was decided in consultation with the national body. New Zealand Rugby had determined that the priority for women’s funding would be the women’s Sevens rugby team.

Sport NZ noted that the approach to funding for all sports has changed. The aim is to get better performance overall, and more impact from investment, through better prioritisation and more precise targeting. This approach aligns with HPSNZ’s vision of inspiring the nation through more “New Zealanders winning on the world stage”. The number of Athlete Cards available is limited, and will be agreed with each sport based on need and stipulated prioritisation.

The 2015/16 community sports strategy

Sport NZ Group’s strategic plan for 2015–2020 places emphasis on participation in sport and other recreational activities through the community sports strategy, which has now been in place for a year.

We heard that groups such as teenage girls and young people in low socio-economic communities—especially Māori, Pasifika, and Asian—are participating at well below the level needed for positive results. Challenges for the strategy are the increase in diversity, inactivity, and obesity in New Zealand communities, and constant new developments in social communications and technology.

Diversity in sport

We see increasing diversity in communities as both a challenge and a great opportunity. We suggested that Sport NZ could do more to work with disadvantaged communities and provide them with sporting opportunities.

In its additional written responses, Sport NZ said it has undertaken a review of Māori participation in sport and recreation, which is due to be finalised in late March. The review considers the cultural competencies needed to enable Māori participation in sport.

The Sport NZ Group also signed the Diversity and Inclusion Commitment Statement in May 2016. The statement is a sports-led approach to encourage diversity and inclusion across all sports. All of the major sports have committed to the framework, and a website will also be funded by the Sport NZ Group to promote diversity and inclusion in sport. The website is expected to go live in 2017.

Diversity within Sport NZ

Sport NZ outlined what it is doing to increase diversity within the organisation. It has implemented a future directors’ programme aimed at increasing women in governance. The programme provides staff with an opportunity to observe and participate in board discussions. Staff diversity will be reviewed in 2017.

Sport NZ aims to have women make up 40 percent of its governance roles by 2020. This compares with 34 percent now, which is above the target of 33 percent it set in 2012.

1 Sport NZ Group, Strategic Plan 2015-20, p. 1.
The availability of “spaces and places” for sport and recreation

Identifying spaces and places was one challenge faced by Sport NZ, so it works alongside regional sports trusts and local councils. A lack of funds means facilities experts are in short supply. This is challenging for Sport NZ as these experts are crucial in improving spaces for sport and recreation. Plans must take into account commercial viability, and appropriate sizing for the growing and changing needs of local communities.

We asked whether Sport NZ could have more of a role in providing funding for local bodies. This model is used in the UK and Australia. We acknowledged that a structure is in place for funding local bodies, but more input on the ground was needed to ensure local communities see the benefits. We heard that $45 million has been used to improve high performance facilities which had now been given back to local communities. One example of this was in Waikato, where the Avantidrome is now being used in a community context rather than for high performance.

Engagement with the sector

A new business unit was formed in November 2016, which has overall accountability for managing engagement with partners. Four regional partnership managers are tasked with leading stakeholder relationships. A knowledge hub will be formed in 2017 to disseminate information across the sector.

Sport NZ seeks to keep partners informed about their performance and expectations for future investment. This is achieved through annual roadshows, regular partner forums, and frequent collaboration on sector working groups.

Relationships with other Government departments

In 2015/16, Sport NZ started engaging with the Ministry of Health and the Ministry of Education to enhance their work in educating young people about the importance of staying healthy and active. The Play.sport programme was one such initiative led by Sport NZ, and supported by the Ministry of Education, and the Accident Compensation Corporation. This aims to embed physical literacy in children so they know the cost of inactivity for themselves and wider society.

Another initiative, Big Change Starts Small, was run in November 2016 in conjunction with the Ministry of Health, as part of the Government’s Childhood Obesity Plan. The plan encourages people to start making small changes to ensure long-term and positive improvements in their children’s health and wellbeing. This was the first time Sport NZ had worked with other departments on a topic that was not exclusively about sport.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 to consider the annual review of Sport and Recreation New Zealand. We heard evidence from Sport NZ and received advice from the Office of the Auditor-General.

Committee members
Hon Ruth Dyson (Chairperson)
Hon David Bennett
Paul Foster-Bell
Barry Coates
Brett Hudson
Hon Nanaia Mahuta

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, [www.parliament.nz](http://www.parliament.nz). They are listed below:


Sport New Zealand, Responses to written questions 1—102, received 15 February 2017.

Sport New Zealand, Responses to written questions Appendix 3, received 15 February 2017.

Sport New Zealand, Responses to written questions Appendix 5, received 15 February 2017.

Sport New Zealand, Responses to additional written questions 103—116, received 7 March 2017.
He arotake ā-tau 2015/16 i Te Reo Whakapuaki Irirangi

Pūrongo a te Komiti o Ngā Take Māori

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Te Reo Whakapuaki Irirangi

**Tūtohutanga**

Kua oti i te Komiti o Ngā Take Māori te arotake ā-tau 2015/16 i te mahinga me ngā whakahaere onāiiane i Te Reo Whakapuaki Irirangi, me te tūtohu kia aro mai te Whare ki tana pūrongo.

**Kupu Whakataki**

He hinonga nā te Karauna Te Reo Whakapuaki Irirangi, e mōhio tia ana anō ko Te Māngai Pāho, i whakatūhitia i raro i te Broadcasting Amendment Act 1993. Ko tana mahi ake he hāpai i te reo me te ahurea Māori mā te pāpāho.

E whakahaerehia ana a Te Māngai Pāho e tētahi Poari i tohua e Te Minita o Ngā Take Māori. Ko Tākuta Eruera Prendergast-Tarena te tiamana, ā, ko Larry Parr te pou whakahaere.

Tekau mā tahi ngā kaimahi a te umanga heā hāpai i tana matakitenga: ahakoa kei whea, āwhea, ahakoa pēwhea, kōrerotia Te Reo Māori.

**Tūnga pūtea**

I te tau 2015/16 he $57.312 miriona te whiwhinga tapeke a te umanga (he $57.650 miriona i te tau o mua). He $57.548 miriona ngā whakapaunga tapeke, ā, he $236,000 te tāra pūtea.

**Ngā kaupapa here pūtea me ngā tikanga**

I tātarihia e Te Mana Arotake (AOG) te wāhanga mana whakahaere a te umanga, ā, i kitea kāore anō kia whakatūturuhi a kaupapa here pūtea, tikanga hoki. I whakaara tuatahitia te take nei i te ētahi 2012 a te OAG, ā, ka pātai atu mātau he aha te take kāore anō kia tutuki.

Ko te whakamārama ma a te pou whakahaere kāore anō kia whakatutukihia i te mea i te arō kāre rātā ki te waihangā me te whakauru mai i te Pūihanatanga, he pūnaha whakahaere pūtea ā-tukutuku. Ina kua whakaurua mai Te Pūihanatanga, ka taea ngā kaupapa here pūtea me ngā tikanga te whakaoeti i mua o te 30 Pipiri 2017.

**Ngā tūtohutanga a te Otīta-Matua**

I tua ati i te tātari i te wāhanga whakahaere a te umanga, i tātarihia anō e te OAG ana kōrero mahinga me te pūtea me ngā mana hāngai, pūnaha hoki. Ko te whakatau a te Otīta-Matua he "pa" ngā wāhi katoa e toru, engari i tūrohui ia ka tae anō ētahi whakapaipai ake. I kī te anō he OAG kāore anō kia whakatūhitia ētahi wāhi hapa i kī te 2014/15. Ko te tūmanako ka tutuki ngā mahi e pā ana ki ngā tūtohutanga a te Otīta-Matua i mua i tā mātau arotake e whai ake.

**Te tauira neke-matau mō te huri i ngā waiaro mō te reo Māori**

I te tau 2012/13 i whakamanahia e te umanga te tauira neke-matau hei tautoko i ngā kaupapa huri i ngā waiaro mō te reo Māori, tae ati ki te "whakatūtururuhia" (normalising) i te whakamahinga o te reo Māori i ia rā e ngā tāngata katoa o Aotearoa. Ko kē heā tūtuwhera te kē ki ngā waiaro whakahaere me ngā kaupapa e ēhiai ana i te whakahua tītia o ngā kupu Māori, me te whakapai ake i te matautanga o te hunga matatau ki te reo.
Mō te āhei mai ki ngā pūtea a te umanga, me waihanga mai e ngā kaitono katoa tētahi mahere reo Māori e whakaatu ana i te pūmau ki te whakawhanake me te tiaki i ngā pūkenga reo Māori. Kei roto i te mahere reo e kōrero ana ka pēhea te tautoko a te kaupapa i te whakatūturu tanga o te reo Māori, ā, ka pēhea te tātai a te kaupapa i tēnei pānga ki ana kaimātakitaki.

I te tau 2015/16, i whakahauhia e te umanga kaupapa rangahau nā TNS New Zealand ki te tātai i te pānga o te tauira neke-mātau. I pātai mātau he aha ngā akoranga ki te umanga mai i tēnei kaupapa rangahau. I te wā o te whakawātanga, i tukuna mai e te umanga he kauwhata e whakaatu ana i te rārangi aunoa o ngā waiaro mō te reo Māori i waenga i te iwi Māori me Tauiwi.1 E toru ngā awhe o te rārangi aunoa: ngangahau-kore, ngoikore, ngangahau hoki. I hiki ētahi mātau ngā kaimātakitaki a te umanga whakaahu i ngā pūtea a te umanga me whakawātanga o te reo Māori o te whakarite ūnga 2016/17. Mō te tauira neke-mātau mō te tauira i tā mātau 2014/15, me te whakahauhia toru ētahi mō te whakapakari he arotake 2016/17.

Te whakarite ūnga

E rārangi ana i te tauākī o ngā tūmanako mahinga 2016/17 ana ūnga mahinga, haumi hoki. E whai ana ki te whakapiki i te māramatanga o te iwi o Aotearoa ki te reo Māori, ngā take Māori, te ahurea Māori mā te mātakitaki, te whakarongo ārangi ki ngā whakaaunui te reo Māori. I kī te mātau ētahi 1 ētahi ake he ūnga 2016/17 ki ngā ūnga 2014/15, mō te whakarite ūnga mahinga i te whakahauhia toru ētahi mō te whakapakari he arotake 2016/17. Ka whaiwhai haere mātau i te whakarite ūnga mahinga i te whakahauhia toru ētahi mō te whakapakari he arotake 2016/17.

Te Mātāwai

I whakatūhia Te Mātāwai e Te Ture mō te Reo Māori 2016 ki te ārahi i ngā mahi whakarauora i te reo Māori mā ngā iwi i te reo Māori. Ko tana mahi matua ko te whakaaora i te reo Māori i roto i ngā kaihautū a me ngā hapori i te reo Māori whānui. Kei te ngākau hikaka te umanga mō Te Mātāwai hei "kaitaunaki" mō te whakarongo mō te reo Māori. I kī te mātau ētahi mō te whakarite ūnga mahinga i te whakapakari he arotake 2016/17.
Te Mātāwai mō te reo Māori, me te aha ka noho tuwhera te ara whitiwhiti i waenga i ngā umanga e rua.

Ia ka mahi tahi te umanga me Te Mātāwai me ētahi atu tari ki te tautoko i te whakarārangi o te reo Māori, i pātai mātāu mēnā he rautaki wāhanga tā te umanga e whakarārangi ana i ana kawenga. I whakaae mai te tou whakahere he mea nui te hanga i ētahi mahere mahi hāngai e whakarārangi ana i te koronga a ia umanga i te mea ka whakarite tēnei kei te mārama ngā rato tautoko, ka mutu ka taea te tātai. I kī ia he mārama te kaupapa a te umanga: ko te tohatoha pūtea hei tautoko i ngā mahi pāpāhotanga. Ko te whāinga a te umanga ko te whakarite ka eke tēnei koronga hei rautaki kawenga takohanga pakari.

Kei te tūmanako atu mātāu i te mahi ngātahi a te umanga me Te Mātāwai ki te whakaora i te reo Māori. Ka āta whaiwhai haere mātāu i tō rātau anga whai wāhui.

Te āhei ki ngā reo irirangi ā-iwi

E 21 ngā teihana reo irirangi ā-iwi o Aotearoa. Huihui katoa, e 64,972 ngā haora whakaturanga pāpāhotanga reo irirangi Māori kua whakaputahi e rātau. Kei te tīmata te aro a ngā reo irirangi Māori ki te waihanga rauemi atu anō i te taha o ā rātau pāpāhotanga tūturu, pēnei i ngā kōnā pāpāhotanga tuihono me ngā whakaturanga tuihono wā tūturu o te kapa haka, ngā whakataetae manu kōrero, ngā uiui, me ētahi atu huihuinga hapori nui.

Kei te māharahara mātāu kāore ētahi rohe i te whai wāhi ki te reo irirangi ā-iwi. I whakaputahia e mātāu tēnei take i tā mātāu pūrongo 2014/15. Ko te whakahē a te umanga e hāra tēnei te take whakamānukanuka i te mea ki ōna whakaaro ka whai wāhi te nuinga ki ngā reo irirangi mā te ipurangi. I kī atu mātāu ko ētahi o ngā rohe kāore he reo irirangi ā-iwi, oti rā ngā rohe tuawhenua, kāore hoki i te whiwhi ipurangi. Ahakoa kei te whakaae mātāu mea nui te reo irirangi tuihono kia mātāu whānui te toro ki ngā kaiwhakarongo, he rarurau tonu tēnei ki ō mātāu whaakaro hei whakarite mā te umanga, arā te kore āhei o ētahi wāhi o Aotearoa ki ngā reo irirangi ā-iwi.

Te ao puoro Māori

I te 2015/16, he $518,000 te haumi a te umanga ki te ao puoro Māori, i tautoko i ngā waiata puoro 116 i whakaputaina mai, 47 ngā kaipuoro, 19 ngā kaitaki puoro, me ngā ataata puoro e 9.

Kei te hari ki te angitu o ngā kaipuoro Māori, me te mihi hoki ki ngā tautoko a te umanga i tēnei angitu. Heoi anō, i tuku whakaaro mātāu kua uaua ake mō ngā kaipuoro Māori te whiwhi pūtea nā te tino kaha o te whakataetae. I kī te umanga ahakoa he tino iti te pūtea kei te wātea, kāore i pau i tērā tau nā te iti o ngā tono. Hei whakatenetena kia nui ake ngā kaipuoro e tono anā i te pūtea, i tino whakapau kaha te umanga ki pai ake te whakarite i ngā whakaputanga puoro, me ngā whakaturanga puoro Māori puta noa i te kōtuinga reo irirangi ā-iwi.

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2 Te Māngai Pāho, Pūrongo ā-tau w9.
3 Ka kitea te pūrongo mō te Ārotake ā-tau 2014/15 i Te Reo Whakapuaki Irirangi i konei: https://www.parliament.nz/resource/en-NZ/51DBSCH_SCR68625_1/36a428c20ee77f245b39e938f6f2fae35e9705f
Tāpiritanga

Hātepe a te komiti
I hui mātou i te 15 o Huitanguru me te 22 o Poutūrangī 2017 ki te wherawhera i te arotake ā-tau o Te Reo Whakapuaki Irirangi. I rongo mātou i ngā whakaaturanga mai i te umanga me te whiwhi tohutohu mai i Te Mana Arotake Aotearoa.

Ngā mema o te komiti
Tutehounuku Korako (Tiamana)
Hōnore Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Peeni Henare
Pita Paraone
Tākuta Shane Reti

Ngā tohutohu me ngā whakaaturanga i tae mai
Ko ngā tuhinga i whiwhi mātou hei tohutohu, whakaaturanga hoki mō tēnei arotake ā-tau ka noho wātea mai i te paetukutuku a te Whare Pāremata www.parliament.nz. E rārangitia ana i raro nei:

Te Mana Arotake, He whakamārama mō Te Reo Whakapuaki Irirangi.

Te Reo Whakapuaki Irirangi, Ngā urupare ki ngā pātai ā-tuhi noa me ngā pātai i muri i te whakawātanga, i whiwhi i te 3 o Huitanguru me te 17 o Poutūterangi 2017.

Te Reo Whakapuaki Irirangi, Te Pūrongo Hauwhā Tuatahi ki Te Puni Kōkiri, i whiwhi i te 3 o Huitanguru 2017.

Te Reo Whakapuaki Irirangi, Te Pūrongo Hauwhā Tuarua ki Te Puni Kōkiri, i whiwhi i te 3 o Huitanguru 2017.

Te Reo Whakapuaki Irirangi, Te Pūrongo Hauwhā Tuatoru ki Te Puni Kōkiri, i whiwhi i te 3 o Huitanguru 2017.

Te Reo Whakapuaki Irirangi, Te Pūrongo Hauwhā Tuawhā ki Te Puni Kōkiri, i whiwhi i te 3 o Huitanguru 2017.
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Appendix 5
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency)

Recommendation
The Māori Affairs Committee has conducted the annual review of the 2015/16 performance and current operations of Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency), and recommends that the House take note of its report.

Introduction
Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency), which is also known as Te Māngai Pāho, is a Crown entity established under the Broadcasting Amendment Act 1993. Its primary function is to promote Māori language and culture through broadcasting.

Te Māngai Pāho is governed by a board appointed by the Minister for Māori Development. The chairperson is Dr Eruera Prendergast-Tarena, and the chief executive is Larry Parr.

The agency employs 11 staff to promote its vision: ahakoa kei whea, ahakoa āwhea, ahakoa pēwhea, kōrerotia Te Reo Māori (Māori language—everywhere, every day, in every way).

Financial position
In 2015/16, the agency’s total revenue was $57.312 million (compared with $57.650 million the previous year). Total expenditure was $57.548 million, resulting in a deficit of $236,000.

Funding policies and procedures
The Office of the Auditor-General (OAG) assessed the agency’s management control environment, and identified that the agency is yet to finalise its funding policies and procedures. This issue was first raised in the OAG’s 2012 audit, so we asked why the agency had not resolved it.

The chief executive explained that the agency had not finalised this policy because it was focused on developing and introducing Te Pūhahatanga, which is a web-based funding management system. Now that Te Pūhahatanga has been introduced, the funding policies and procedures can be completed by 30 June 2017.

Recommendations from the Auditor-General
As well as assessing the agency’s management control environment, the OAG has assessed its financial and performance information and the associated systems and controls. The Auditor-General has rated all three areas as “good”, but has recommended that some improvements be made. The OAG notes that some deficiencies identified in 2014/15 have not yet been corrected. We hope to see action taken on the Auditor-General’s recommendations by the time of our next review.

Right-shift model for changing attitudes to te reo Māori
In 2012/13, the agency adopted the right-shift model to support projects that aim to change society’s attitudes to te reo Māori, including “normalising” the everyday use of te
The agency funds programmes and initiatives that foster correct pronunciation of Māori words, and improve fluency for competent speakers.

To successfully secure the agency funding, all applicants are expected to design a Māori language plan demonstrating a commitment to develop and maintain te reo Māori skills. The language plan will include how the programme will contribute to the normalisation of te reo Māori, and how the venture plans to measure this impact on its intended audience.

In 2015/16, the agency commissioned a research project by TNS New Zealand to measure the impact of the right-shift model. We asked what the agency learnt from this research project. At the hearing, the agency provided a graph setting out the continuum of attitudes to te reo Māori among the Māori and non-Māori population. The continuum has three ranges: non-active, passive, and active. We were encouraged by the overall positive attitudes to te reo Māori, with 55 percent of Māori and 13 percent of non-Māori defined as active.

We asked whether the agency could measure the impact of the right-shift model on fluency as well as on attitudes. The agency said that measuring fluency goes beyond its current focus, but it would be interested to work with other entities to develop a measurement framework in the future.

We will follow up on the right-shift model’s progress in our 2016/17 annual review.

**Target-setting**

The agency’s statement of performance expectations 2016/17 sets out its performance and investment targets. They aim to increase New Zealanders’ understanding of te reo Māori, Māori issues, and Māori culture through watching or listening to Māori programming. We noted that the 2016/17 targets were only 1 percent higher than the results from 2014/15, and questioned whether this amount is aspirational enough.

The agency acknowledged that 1 percent is a small increase, but said that the broadcasting environment is changing dramatically because of technological advances in online broadcasting. For example, last month Māori Television had 1.2 million viewers. About a third of those were engaging online. The agency is working with Māori Television and Nielsen Television Audience Measurement to develop a measurement model that captures both online and traditional viewers. This will allow it to set more robust targets, and receive comprehensive analytics behind each set of results.

We look forward to the agency’s progress in this area.

**Te Mātāwai**

Te Mātāwai was established by Te Ture mō Te Reo Māori 2016 (Māori Language Act 2016) to lead the revitalisation of te reo Māori on behalf of iwi and Māori. Its primary focus is to revitalise te reo Māori at iwi, Māori, and community levels. The agency is enthusiastic about Te Mātāwai as a “champion” for the revitalisation of te reo Māori.

We asked how the agency plans to work with Te Mātāwai. Last year, the agency focussed on building internal efficiencies to strengthen its capacity to work with other agencies. It is positive about Te Mātāwai’s role in leading discussions about te reo Māori across Crown entities. The chief executive recently attended a planning session to establish how the
agency can contribute to Te Mātāwai’s draft vision for te reo Māori, and the two entities will maintain open communication.

Given that the agency will be working with Te Mātāwai and other agencies to support the revitalisation of te reo Māori, we asked if the agency has an accountability strategy setting out its responsibilities. The chief executive agreed that an aligned plan of action stating each agency’s purpose is important because it ensures that contributions are clear and measurable. He said that the agency has a clear purpose: distributing funds to support broadcasting. The agency’s challenge will be to ensure that this purpose translates to a robust accountability strategy.

We look forward to the agency and Te Mātāwai working together to revitalise te reo Māori. We will follow their progress with interest.

Access to iwi radio

New Zealand has 21 iwi radio stations. Together, they have produced 64,972 hours of Māori language content radio broadcasting. Iwi radio stations are starting to place emphasis on creating additional material alongside their traditional broadcasts, such as podcasts and live streams of kapa haka, ngā manu korero competitions, interviews, and other significant community events.

We are concerned that some areas still do not have access to iwi radio. We raised this issue in our 2014/15 report. The agency disagreed that this is a cause for concern because it considers that the majority of listeners access radio online. We pointed out that some of the areas with no iwi radio, particularly rural areas, also do not have internet access. Although we agree that online radio is important to ensure a wide audience reach, we still consider that having parts of New Zealand without access to iwi radio is a problem that the agency should address.

Māori music scene

In 2015/16, the agency invested $518,000 into the Māori music scene, contributing to 116 music tracks, 47 musicians, 19 music producers, and 9 music videos.

We are pleased with the success of Māori musicians, and acknowledge the agency’s contribution to this success. However, we suggested that the thriving competition has made it harder for Māori musicians to receive funding. The agency said that although there is a relatively small amount of funding available, in the last financial year applications were actually undersubscribed. In an effort to encourage more artists to apply for funding, the agency has put substantial effort into better coordination of music releases, and Māori music programming across the iwi radio network.

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5 Te Māngai Pāho, Annual report p9.
6 The report on the 2014/15 Annual review of Te Reo Whakapuaki Irirangi (Maori Broadcasting Funding Agency) can be found here: https://www.parliament.nz/resource/en-NZ/51DBSCH_SCR68625_1/36a428e20ee77f245b39eca938f2f2fae35e9705f
Appendix

Committee procedure

We met on 15 February and 22 March 2017 to consider the annual review of Te Reo Whakapuaki Irirangi (Māori Broadcasting Funding Agency). We heard evidence from the agency 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

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on Te Reo Whakapuaki Irirangi (Māori Broadcasting Commission).

Te Reo Whakapuaki Irirangi, Responses to standard written questions and post-hearing questions, received 3 February and 17 March 2017.

Te Reo Whakapuaki Irirangi, First Quarterly Report to Te Puni Kōkiri, received 3 February 2017.

Te Reo Whakapuaki Irirangi, Second Quarterly Report to Te Puni Kōkiri, received 3 February 2017.

Te Reo Whakapuaki Irirangi, Third Quarterly Report to Te Puni Kōkiri, received 3 February 2017.

Te Reo Whakapuaki Irirangi, Fourth Quarterly Report to Te Puni Kōkiri, received 3 February 2017.
He arotake ā-tau 2015/16 i te Taura Whiri i te Reo Māori

Pūrongo a te Komiti o Ngā Take Māori

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Te Taura Whiri i te Reo Māori

Tūtohutanga

Kua oti i te Komiti o Ngā Take Māori te arotake ā-tau 2015/16 i te mahinga me ngā whakahaere onāiānei a Te Taura Whiri i te Reo Māori, me te tūtoho kia aro mai te Whare ki tana pūrongo.

Kupu Whakataki

He hinonga Karauna motuhake Te Taura Whiri i te Reo Māori e whai pūtea ana i te Pōti Whanaketanga Māori. Ko Te Puni Kōkiri tana umanga aroturuki. Ko te whāinga a te kōmihana he whakarauora, he whakatairanga, he whakawhanake, me te rangahau i te reo Māori.

Kua rerekē te mahi a te kōmihana mai i te whakaurunga atu o Te Ture mō Te Reo Māori 2016. Kua noho ko te kōmihana te umanga arataki ināiānei i te whakatinatanga o ngā mahi manaaki a te Karauna i te reo Māori. Arā, ko te ārabi i te whanaketanga o Te Maihi Karauna (te Rautaki Reo Māori a te Karauna). I roto i tana mahi hou, ka arotahi te kōmihana ki te tautoko i te whakamahinga me te whakatairanga i te reo Māori i roto i ngā tari kāwanatanga.

Ko Tākuta Wayne Ngata te tiamana o te poari o te kōmihana, ā, ko Ngāhiwi Apanui te tumuaki.

Mahinga pūtea me te huatau ōtīta

He $11.938 miriona te whiwhinga tapeke a te kōmihana i te tau 2015/16, ā, ko ngā whakapaunga tapeke he $10.734 miriona. He $1.204 miriona te moni tuwhene i pūrongohia e te kōmihana, he iti ake tēnei i te $1.566 miriona i te tau 2015/16. Ko te take he moni tuwhene nā te kore i pau o ngā pūtea i ētahi wāhanga, pēnei i te kaupapa here me te rangahau, me te pūtea hapori.

E ai ki tana ōtīta, i kite anō Te Mana Arotake (OAG) me whakapai ake te wāhanga mana whakahaere a te kōmihana, ngā pūnaha kōrero pūtea me ngā mana, ngā kōrero mahinga me ngā pūnaha hāngai me ngā mana. Ko te tūtoho a te OAG "me wawe te whakauru mai i ngā whakatatika nui".

I ki mai te OAG kei te tino āwangawanga ia mō te tukanga whakaū kounga a te kōmihana, i te mea he maha ngā hapa i roto i ana kōrero pūtea me te mahinga hukihuki. Nā tēnei i mate te kōmihana ki te tuku anō i ana Tauākī o Ngā Taumata Mahi Hei Whakatutuki ki Te Puni Kōkiri. I tūtohu anō te OAG me whai anō ngā tuhinga kawenga takohanga matua i ngā taumata arotake kounga e tika ana.

Kei te whakaae te OAG he nui ngā mahi a te kōmihana hei whakapai ake i ana mana whakahaerenga e pā ana ki ngā whakapaunga aronui, te whakaū i ana here ā-ture, me te whakarato i ngā tuhinga tōtika e tautoko ana i ngā otinga kōrero mahinga.

I ki te kōmihana kei te mārama rātau me pai ake rātau. Kua whakatūhia e rātau he komiti whātūtū tātari mōrearea hei hāpai ake i ana mahi āta tirotiro i ngā pūtea. Kei te whakaae mātau ki tā te OAG, ā, ka whaiwhaihia ake anō e mātau i te roanga atu o te tau 2017.
Kua whakaarahia e mātau tētahi kaupapa motuhake, ā, he hui whakamārama tēnei e taea ai e mātau tētahi arotake pūtea rangitahi te whakahaere me te kōmihana i tēnei tau. Ko te tūmanako ka ū tonu te Komiti o Ngā Take Māori o te Whare Pāremata 52 kia noho tuwhera tonu tēnei hui whakamārama.

**Te whakatūtanga o Te Mātāwai**

He whakahaere hou a Te Mātāwai i whakatūhia i raro i Te Ture mō te Reo Māori 2016 hei ārahi i ngā mahi whakaraaoura i te reo Māori mō ngā iwi me te Māori. Mai i tōna whakatūtanga, i te kōmihana te kawenga tukutuku pūtea ki ngā kaupapa hapero maha, engari ka riro tēnei mahi i Te Mātāwai ināianei.

I pātai atu mātau kei te pēhea ki ngā kaimahi ngā rerekētanga me te mahi tahi me Te Mātāwai. He mahi ngā tāngata i whiwhi mahi i te tau kua hīpa ki te āwhina i te whakawhitinga i waenga i te kōmihana me Te Mātāwai. I kī te kōmihana he rangatahi ngā kaimahi hou, me te aha ko te whakaaro e tika ana mā ngā reanga o āpōpō e taki haere ngā mahi whakarauora i te reo Māori. I kī mai te kōmihana he wāhanga nui o ana mahi rangahau he whakarongo ki ngā rangatahi me ō rātau matua.

I kōrero mai anō te kōmihana ko tētahi wāhanga pai o te Ture he mārama tana whakatakoto tohutohu ki ia whakahaere mō āna ake mahi.

**Ngā pūtea hapero**

E $9.68 miriona kei te tohatohahia e te kōmihana mō te pūtea hapero. Ka riro tēnei i Te Mātāwai ā tōna wā. I pātai atu mātau ki te kōmihana ka pēhea te whakahaere i tēnei. Ko te kī mai a te kōmihana ko tāna mahi i raro i te ture hou me te whakatairanga i te reo Māori, ā, ka noho koinei tana mahi ā tōna wā.

**Te rangahau whakarauora i te reo Māori**

He $2 miriona i tukuna ki te kōmihana i ia tau i raro i te Pōti Whanaketanga Māori mō ngā kaupapa rangahau me te whanaketanga hei āpai i ngā mahi whakarauora i te reo Māori. Mai i te 2016/17, ka wehea e te kōmihana he haurua o tēnei pūtea mā Te Mātāwai. Ka whakamahia e ēnei whakahaere e rua ngā pūtea mō te rangahau.

Kei te mahi tahi te kōmihana me Te Punihōkihi, Te Mātāwai, Whakaata Māori, me Te Māngai Pāho ki te whakategewhetaanga i te kaupapa pai rawa mō te pūtea rangahau. I kī mai te kōmihana kei te mahi tōtau me ētahi atu hinonga, pēnei i ngā whare wānanga, kia tino mōhio ai rātau kei te whānui te pānga o ana rangahau. Kei te mihi atu mātau ki te kōmihana mō ana mahi ngātahi me ētahi atu whakahaere ki te waihanga i tōna huarahi anamata, ā, me te tūmanako ka haere tonu ēnei mahi ā muri ake.
Tāpiritanga

Hātepe a te komiti
I hui mātau i te 8 me te 22 o Poutūterangi 2017 ki te wherawhera i te arotake ā-tau a Te Taura Whiri i te Reo Māori. I rongo mātau i ngā whakaaturanga mai i te kōmihana me te whiwhi tohutohu mai i te Te Mana Arotake Aotearoa.

Ngā mema o te komiti
Tutehounuku Korako (Tiamana)
Hōnore Chester Borrows
Mārama Davidson
Kelvin Davis
Mārama Fox
Peeni Henare
Pita Paraone
Tākuta Shane Reti

Ngā tohutohū me ngā whakaaturanga i tae mai
Ko ngā tuhinga i whiwhi mātau hei tohutohu, whakaaturanga hoki mō tēnei arotake ā-tau ka noho wātea mai i te paetukutuku a te Whare Pāremata www.parliament.nz. E rārangitia ana i raro nei:

Te Mana Arotake Aotearoa, he Whakamāramatanga mō Te Taura Whiri i te Reo Māori, i te 22 o Poutūterangi 2017.

Te Taura Whiri i te Reo Māori, Ngā whakautu ki ngā pātai o te arotake ā-tau, i te 28 Kohitātea 2017.

Te Taura Whiri i te Reo Māori, ngā whakautu ki ngā pātai i muri i te whakawātanga, i te 22 o Poutūterangi 2017.
2015/16 Annual review of Te Taura Whiri i te Reo Māori (Māori Language Commission)

Report of the Māori Affairs Committee

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Te Taura Whiri i te Reo Māori (Māori Language Commission)

Recommendation
The Māori Affairs Committee has conducted the annual review of the 2015/16 performance and current operations of Te Taura Whiri i te Reo Māori (Māori Language Commission), and recommends that the House take note of its report.

Introduction
Te Taura Whiri i te Reo Māori (Māori Language Commission) is an autonomous Crown entity funded through Vote Māori Development. Te Puni Kōkiri is its monitoring agency. The commission aims to revitalise, promote, develop, and research the Māori language.

The role of the commission has changed after the introduction of Te Ture mō Te Reo Māori 2016 (the Māori Language Act 2016). The commission is now the lead agency for implementing the Crown’s duty of care for te reo Māori. This includes leading the development of Te Maihi Karauna (the Crown’s Māori Language Strategy). In its new role, the commission will focus on supporting the use and promotion of te reo Māori in government agencies.

The chairman of the commission’s board is Dr Wayne Ngata and the chief executive is Ngahiwi Apanui.

Financial performance and audit opinion
The commission’s total revenue was $11.938 million in 2015/16 and total expenditure was $10.734 million. The commission reported a surplus of $1.204 million, down from $1.566 million in 2015/16. The reason for the surplus is underspending in certain areas, such as policy and research, and community funding.

Based on its audit, the Office of the Auditor-General (OAG) has again found the commission’s management control environment, financial information systems and controls, and performance information and associated systems and controls to be in need of improvement. The OAG has recommended that “major improvements be made at the earliest reasonable opportunity”.

The OAG told us that the commission’s quality assurance process was of particular concern, as there were several errors in its draft financial and performance information. This meant that the commission had to resubmit its Statement of Performance Expectations to Te Puni Kōkiri. The OAG has recommended that key accountability documents be subject to appropriate levels of quality review.

The OAG acknowledged that the commission has devoted significant efforts to improving its controls relating to sensitive expenditure, meeting legislative requirements, and providing appropriate supporting documentation for performance information results.
The commission said it is aware that it needs to improve. It has set up an audit risks subcommittee to enhance its financial scrutiny. We agree with the OAG, and will follow up with the commission later in 2017.

We have initiated a separate item of business as a briefing so that we can hold an interim financial review with the commission later in the year. We hope that this briefing will be kept open by the Māori Affairs Committee of the 52nd Parliament.

Establishment of Te Mātāwai

Te Mātāwai is a new organisation established under Te Ture mō te Reo Māori 2016 (The Māori Language Act 2016) to lead revitalisation of te reo Māori on behalf of iwi and Māori. Since it was established, the commission has been responsible for various community funding programmes, but this responsibility will now move to Te Mātāwai.

We asked how staff are dealing with the changes and working with Te Mātāwai. In the past year several people have been employed to help with the transition between the commission and Te Mātāwai. The commission noted that the new employees are young, as there is a sentiment that the revitalisation of te reo Māori needs to come from future generations. The commission told us that listening to young people and their parents forms an important part of its research.

The commission added that a positive aspect of the Act is that it gives each organisation a clear direction for its work.

Community funding

The commission is currently allocated $9.68 million for community funding. This will be allocated to Te Mātāwai in the future. We asked how the commission would work with this. The commission said its task under the new legislation is to promote the Māori language, and this will be its focus in the future.

Research for Māori language revitalisation

The commission has previously been allocated $2 million each year under Vote Māori Development for research and development projects that support the revitalisation of the Māori language. From 2016/17, the commission will share half of this allocation with Te Mātāwai. Both entities are to use the allocation for research.

The commission is collaborating with Te Puni Kōkiri, Te Mātāwai, Māori Television, and Te Māngai Pāho to investigate the best use for research funding. The commission told us it is also working with other entities, such as tertiary education institutions, to make sure its research has wide-reaching impact.

We commend the commission for its cooperative work with other entities to shape its future direction, and wish to see this continue in the future.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of Te Taura Whiri i te Reo Māori (Māori Language Commission). We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members
Tutehounuku Korako (Chairperson)
Hon Chester Borrows
Marama Davidson
Kelvin Davis
Marama Fox
Peeni Henare
Pita Paraone
Dr Shane Reti

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on Te Taura Whiri i te Reo Māori, dated 22 March 2017.

Te Taura Whiri i te Reo Māori, Responses to annual review questions, dated 28 January 2017.

Te Taura Whiri i te Reo Māori, responses to post-hearing questions, dated 22 March 2017.
2015/16 Annual review of Television New Zealand
Report of the Commerce Committee

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Television New Zealand Limited

**Recommendation**

The Commerce Committee has conducted the annual review of the 2015/16 performance and current operations of Television New Zealand Limited, and recommends that the House take note of its report.

**Introduction**

Television New Zealand Limited (TVNZ) is a Crown entity company. It is fully government-owned but operates commercially as a national television broadcaster and digital media company. Most of its funding comes from advertising revenue. It operates six channels, including a new channel, TVNZ Duke. It also operates an online site offering video content (TVNZ OnDemand) and the news site 1 News Now.

TVNZ’s operations are governed by the Television New Zealand Act 2003. Kevin Kenrick is the chief executive. TVNZ’s board of directors reports to the Minister of Broadcasting and the Minister of Finance (the shareholding Ministers). Joan Withers is the chair.

**Financial and service performance**

TVNZ generated a total profit of $12.7 million in 2015/16—55 percent less than last year. This is the lowest level of profit in five years. Total revenue was $326.1 million. TVNZ will pay a dividend of $13.4 million to the Crown for 2015/16. This is higher than in recent years, when TVNZ reduced its dividend payments while refurbishing its Auckland premises.

The company’s total revenue has been declining over the past five years, largely because of a steady drop in advertising revenue. This reflects an industry-wide decline, and is despite TVNZ increasing its market share of television advertising revenue from 60.8 percent to 61.3 percent. The business made savings of 3.3 percent in its operating costs for the year.

The Office of the Auditor-General (OAG) rated TVNZ’s management control environment and its financial systems and controls as “very good”. However, TVNZ’s performance information and associated systems and controls were rated as “good”. We hope to see the OAG’s recommended improvements carried out.

**Update on television viewership and audience demographics**

TVNZ said that its share of television audiences was a “performance highlight of the year” with audience share the highest it has been in five years, averaging 2.2 million viewers per day. New Zealand’s top 20 programmes all screen on TVNZ channels. TVNZ OnDemand users watched 65 million streams, with 1.2 million registrations in the last financial year. Additionally, the 1 News Now platform streamed 62 million videos.

We were interested to hear that viewership had increased, because there is a perception that younger generations watch less television now. We asked how TVNZ attracts young people to watch television.

According to TVNZ, across the market, teenagers watch an average of 1 to 1.5 hours of television per day. This is considerably less than in the past, and in comparison with adults.
TVNZ told us that it has created a team made up of younger people within the organisation called “New Blood Within the Business” in an effort to play a more relevant role for younger viewers. This new team has led to a recent investment in “eSports” content.

**Challenges and drivers of change in the industry**

**The effect of international competition on TVNZ**

TVNZ says that a significant shift in competition occurred in 2015/16. Instead of competing mainly with local media, it now competes more with global-scale players.

We asked about the effects of Facebook and Google on online revenue streams. TVNZ said that Google, Amazon, Facebook, and Apple are the dominant players, with Facebook the most influential for online news, and this was having an effect on TVNZ’s online revenue streams. TVNZ said it remains competitive in the advertising market thanks to its strong audience share. However, it is a risk that online advertisers could buy exclusively from the global players.

TVNZ says that one way it is dealing with this challenge is through the partnering collaboration Kiwi Premium Advertising Exchange. KPEX combines the advertising inventories of TVNZ, MediaWorks, Fairfax, and NZME, making it easy for advertisers to target local audiences. TVNZ considers that this has been an effective way to grow its position in a market with “massive scale” global competitors.

**Local market and local content**

TVNZ said that the biggest challenge with the local market is whether local content is economically feasible.

We asked whether TVNZ is concerned that, with less local content being produced, particularly children’s programmes, the New Zealand accent may be less prominent on television. We heard that TVNZ gets large audiences for its local content and works to strike a balance between local and international content. With regard to children’s programming, TVNZ told us that it collaborates with organisations such as New Zealand on Air to gather information about what children are interested in, and how they want to view it.

**Funding for public broadcasting**

We sought TVNZ’s view on whether funding for New Zealand on Air is sufficiently directed towards public broadcasting, and whether funding for public-interest broadcasting should be increased.

TVNZ said that New Zealand on Air has a good funding model and it is taking the right approach to decisions about funding allocations. It said that while NZ on Air has not focused on funding news in the past, it is exploring new approaches as the line between news, current affairs, and “conversational” programmes becomes less clear.

With regard to enhancing financial support for public-interest broadcasting, TVNZ pointed out that sustainability of local production can be challenging, and organisations such as New Zealand on Air play a useful role.

We asked if there would be merit in designating and funding one channel specifically for public broadcasting. TVNZ said it would support exploring options that would enable
New Zealanders to get high-quality content. However, it stressed that mandates must be clear in order to get the best results for viewers.

We asked whether TVNZ considers itself to be a public broadcaster. TVNZ said it is fully committed to its obligations under the Television New Zealand Act 2003. These require it to be a successful national television digital media company with a choice of delivery platforms. Its content must be relevant to and valued by New Zealand audiences, and must encompass both New Zealand and international content and reflect the Māori perspective. It noted that the Act does not explicitly refer to public broadcasting, and said that it would not be viable as a business if its content was only of marginal interest to audiences.

The status of regional television coverage

We asked whether TVNZ is committed to maintaining regional coverage and staffing levels throughout New Zealand, particularly in large areas such as Otago and Southland. Some of us are concerned that issues that are important to regional New Zealanders are no longer receiving adequate coverage, as its editorial decisions are made in Auckland.

The chief executive stated that TVNZ is not prepared to make commitments about maintaining or increasing staff numbers, as it needs to become a leaner and more efficient organisation over time. It considers that the number of people in an area, rather than the area’s size, is what drives the number of news stories. However, TVNZ sees opportunities to use technology to obtain widespread news more cost-effectively. For example, 4G cellular technology can facilitate more efficient information-gathering, editing, and publishing of news stories.

Refurbishment of TVNZ’s Auckland premises

In 2014, TVNZ began refurbishing its premises at 100 Victoria Street in Auckland. Stage 1 of the refurbishment has been completed, and Stage 2 is nearly complete. The revised budget for the project is $60.3 million.

We discussed the cost and value of the refurbishment. We understand that an independent valuation was carried out on 30 June 2016, based on the building “as if completed”. It gave a fair market value of $76.7 million for the building, compared with a book value of $76 million. The valuation concluded that there has been no impairment of the asset because the market value exceeds the forecast building costs.

Some of us expressed concern that the value of the asset is much lower than it should be, in view of a 2012 valuation of about $30 million and the $60.3 million expected to be spent on refurbishment. We asked what value the amount spent on refurbishment has delivered.

TVNZ’s chair emphasised that the refurbishment was essential because the building had weather-tightness issues and needed seismic work. The chair said that the refurbishment has created a fit-for-purpose, 21st-century building. TVNZ also said that the benefits of the refurbishment have been factored into its five-year cost forecast.

We asked where the capital gain is in relation to the refurbishment. TVNZ responded that buildings in the TVNZ accounts are carried at fair value. Following the completion of the building refurbishment, an independent estimate of value was completed. This confirmed that the market value of the Auckland building was equal to or greater than the carrying book value plus the money spent on the refurbishment.

TVNZ told us that valuations are only estimates of the market value at a point in time and can also vary between parties performing the valuations. In 2012, TVNZ used Seager and
Partners for the external valuation and in 2016, TVNZ used CBRE. We were told that market conditions have changed considerably between 2012 and 2016.

We asked whether there were any cost overruns on the revised budget. TVNZ told us that there were “unders and overs” for some aspects, but that overall the building would come in under budget.

The OAG advised us that it tested samples of the capital work in progress and concluded that the costs capitalised were consistent with accounting standards.

We asked whether the development of the SkyCity hotel on land sold by TVNZ would impair the value of TVNZ’s building. TVNZ said that it expects the land to actually increase in value. Additionally, when agreements were made to sell the land and buildings, TVNZ took steps to ensure that it would not be adversely affected by construction.

**Proposed merger between NZME and Fairfax**

In May 2016, NZME Limited and Fairfax NZ Limited sought approval to merge their New Zealand operations. They cited the major changes occurring in media as the key reason for the merger. We note that, in assessing the proposed merger, the Commerce Commission expressed concern about low levels of media plurality in New Zealand. This manifests in two ways—diversity of voices, and ownership or control of media channels.

We asked TVNZ to comment on NZME and Fairfax justifying the merger based on the need to compete for advertising money with large online companies. TVNZ told us that its submissions to the Commerce Commission about the proposal focused on the distinction between local and international news. It believes that they appeal to different audiences so they are separate markets. We heard that if the top two providers of local news were to merge, this would make it very difficult for TVNZ to compete.

TVNZ supports the views of NZME and Fairfax that New Zealand has “very high journalistic standards” and is committed to plurality of voices from within media organisations.

**Possible participation in joint ventures**

We asked whether TVNZ has given or sought advice from the Government on any type of joint venture. TVNZ said that it is open to partnering with other players as a means of being more competitive, and has discussed various options with shareholding Ministers and others. It added that the eventual decision of the Commerce Commission regarding the NZME and Fairfax merger will influence any consideration of potential partnerships.

We asked whether TVNZ faces risks if it does not pursue a joint venture with an organisation such as a telecommunications company. The chair said that what TVNZ has to offer is “pretty unique”, and that the outcome of current merger applications before the Commerce Commission will play a role in shaping media in New Zealand. The chair emphasised that TVNZ has to be “alert to all the opportunities” because of the online changes.

**News coverage**

**Kaikōura earthquake in November 2016**

We asked TVNZ how it felt it handled news coverage of the Kaikōura earthquake the previous month. TVNZ said it believes One News “performs to its best” in reporting on major issues like this that are important to New Zealanders. It said that 1.8 million people
accessed updates via One News, and it had more than 5.5 million video streams online in a 24-hour period.

**United States presidential election**

We asked why coverage of the United States election had stopped for regular programming. TVNZ explained that it resumed usual programming of entertainment content at 7:00pm and the audience viewership during the entertainment content was higher than during the election coverage. However, it said it continued to cover the US election online, as it has the flexibility to cater to different viewers by using multiple platforms.

**Sky Television copyright infringement notice**

We are aware that in the year under review, Sky Television (Sky TV) issued a copyright infringement notice to a number of companies, including TVNZ. We understand that this relates to the use of rugby clips during sports coverage. We asked TVNZ to elaborate.

TVNZ confirmed that the issue relates to fair dealing in the use of sports content to accompany news stories. It said that as news has increasingly moved online, it has become more difficult to determine the boundaries around fair dealing. TVNZ said that it supports Sky TV’s ability to get a return on its investment in sports rights, but does not accept that it is for Sky TV to decide when New Zealanders are provided with news. The matter is ongoing.
Appendix

Committee procedure

We met on 8 December 2016 and 2 March 2017 to consider the annual review of Television New Zealand Limited. We heard evidence from Television New Zealand Limited and received advice from the Office of the Auditor-General.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Ria Bond
Dr David Clark
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Hon Peseta Sam Lotu-Iiga
Simon O’Connor

Advice and evidence received

The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Office of the Auditor-General, Briefing on Television New Zealand Limited, dated 8 December 2016.

Office of the Auditor-General, TVNZ building costs, dated 8 December 2016.

Television New Zealand Limited, Presentation, dated 8 December 2016.

Television New Zealand Limited, Response to written questions 1-102, dated 2 December 2016.

Television New Zealand Limited, Responses to additional questions 103-111, dated 20 December 2016.

Television New Zealand, Capital gains and building refurbishment, dated Wednesday 1 March 2017.
The Primary Production Committee has conducted the annual review of the 2015/16 performance and current operations of Animal Control Products Limited and Crown Irrigation Investments Limited, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Ian McKelvie
Chairperson
2015/16 Annual review of AsureQuality Limited

Report of the Primary Production Committee

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AsureQuality Limited

Recommendation
The Primary Production Committee has conducted the annual review of the 2015/16 performance and current operations of AsureQuality Limited, and recommends that the House take note of its report.

Background to AsureQuality
AsureQuality Limited (AQ) is a State-owned enterprise established in 2007. It provides a wide range of services to the food and primary industries, both in New Zealand and abroad. Its business activities include:

- independent verification and certification against regulatory standards
- food and contaminants testing
- distribution of specialist veterinary test kits for use in disease management response
- supporting the Ministry for Primary Industries in its biosecurity efforts
- providing consulting services to the primary industries sector.

In the year under review, AQ increased its revenue by $500,000, to $189.7 million, and increased profits by $1 million, to $12.4 million. Profit results were improved by the sale of shares in Dairy Technical Services Limited. AQ paid a dividend of $6.4 million in 2016. We note AQ’s comment that the decrease in the live exports trade has put pressure on its revenue.

Providing consulting services overseas
One of AQ’s strategic priorities for the coming year is growing its global presence to “build sustainable revenue … and selectively explore new opportunities through collaboration”. AQ provides international consulting services to a range of customers in countries such as Australia, Saudi Arabia, China, and Cambodia. It recently established offices in Singapore and Shanghai.

Success of AQ’s Shanghai office
We were interested to hear how the Shanghai office is doing. We heard that the operation is very small-scale, with only a couple of staff based in China. Primarily, it offers advice on how to improve produce quality through food safety standards and programmes. It works with a broad range of customers, from horticulturalists and restaurateurs through to larger-scale organisations such as Starbucks. It works both with Chinese and New Zealand companies.

Since AQ’s China office is very small, we asked what value it saw in the work it is doing there. It brings in limited revenue of approximately $2 million.

AQ told us that its presence in China enhances New Zealand’s reputation as a global expert in food safety and food quality. It also argued that, by operating in and learning about large
overseas markets such as China, it adds value to the services it provides for New Zealand companies domestically.

Managing the risks of international operations

We asked AQ how it manages the reputational risks associated with working on co-operative international projects. We heard that AQ has a risk assessment system to measure the dangers associated with entering into new projects. The chair of AQ’s board added that the board has spent considerable time discussing the business’s risk assessment strategy, and said AQ has a generally cautious approach to risk. AQ added that it does not do certification work in China. To help manage its own reputational risks, AQ maintains a clear distinction between its New Zealand-based certification work and the consultation work it does in China.

Ability to compete internationally

AQ has previously raised issues with us about having enough resources to be able to compete on the international stage. We asked whether this was still a concern.

The chair of AQ’s board told us that she is no longer concerned about resources, although AQ still has several very large international competitors. We heard that AQ is using its point of difference as a niche specialist, particularly in the dairy sector, to attract business away from these larger operations. This seems to be going well. For instance, AQ’s reputation as an international expert has attracted large European customers to use its Singapore laboratories for quality testing.

Working with Landcorp and the Ministry for Primary Industries

We believe it would be of value for AQ to share its certification expertise with the Ministry for Primary Industries, particularly in the areas of organic certification and Mānuka honey certification.

AQ told us that it engages with the ministry on these issues, describing its relationship as “multi-faceted”. It said that the ministry sets the regulations in these areas, but AQ has an active role in providing advice and expertise.

We were very interested in whether AQ has considered creating a national quality assurance programme for New Zealand’s food production. Such a programme would require AQ to work with Landcorp as well as the ministry.

AQ said it is interested in pursuing this idea, but it has been stalled by a series of management changes in both Landcorp and AQ. While the two entities had talked about progressing a national programme several years ago, the idea had not progressed.

AQ told us its current focus is on working with individual customers, such as Silver Fern Farms and Fonterra, rather than at a national level. Currently, each customer has its own set of certification standards that AQ uses for its certification services. We asked whether it would be possible to develop a set of consistent best-practice standards that would set New Zealand apart internationally, but also allow AQ to develop a more efficient certification system. AQ told us that there is good work being done on this issue, particularly in the meat industry.

We are pleased that AQ and the farming sector are moving in this direction. We encourage it to investigate the sustainable wine-growing programme that has been active in New
Zealand’s winemaking industry for a number of years. This programme has similar objectives, and AQ could find it a useful starting point for further development.

**Drone technology**

AQ has programmes dedicated to developing new technology to improve its services. We were interested to hear that AQ is investigating drone technology with Scion and the Ministry for Primary Industries. It is considering options such as biosecurity and inspection uses. AQ is very interested to work out how it could use drone technology, but indicated that it is still at a very early stage.

We encourage AQ to continue exploring these new options.
Appendix

Committee procedure
We met on 16 February and 23 March 2017 to consider the annual review of AsureQuality Limited. We heard evidence from AsureQuality and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

AsureQuality Limited, Responses to questions 1–102, received 30 January 2017.
AsureQuality Limited, Responses to supplementary questions 103–107, received 7 March 2017.
2015/16 Annual review of Land Information New Zealand

Report of the Primary Production Committee

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Land Information New Zealand

Recommendation

The Primary Production Committee has conducted the annual review of the 2015/16 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 the government department that manages property rights transactions and external use of location-based information. It also manages New Zealand’s Crown land. LINZ is responsible to the Minister for Land Information.

Andrew Crisp was appointed to the chief executive role in October 2016 after acting in the role since July 2016.

Financial performance

LINZ is funded from Vote Lands and through revenue from third parties. Its total revenue for 2015/16 was $137.1 million, up from $122.6 million in 2014/15. It recorded a surplus of $18.99 million for 2015/16.

LINZ relies on revenue from survey and title fees. These fees accounted for $74 million, about half its departmental revenue, in the year to June 2016. It aims to set fees on a cost recovery basis, and operates a memorandum account into which it deposits any surplus fees collected. The Landonline memorandum account had a surplus of $44 million at 30 June 2016.

After reviewing the current level of fees, LINZ decided to lower the fee rate from 1 July 2017.

Non-financial performance information

The Office of the Auditor-General (OAG) says that LINZ’s reporting does not yet give a reader a clear picture of the organisation’s performance and achievements in the year. It considers it critical that LINZ establishes specific measures, with targets, in support of its strategic intentions so that they can be reported on in a clear manner.¹

The OAG has therefore given a rating of “needs improvement” to the organisation’s performance information and associated systems and controls. The OAG notes that it has been recommending improvements in these areas for some years. It acknowledges that LINZ is aware of the deficiencies in this area and understands what needs to improve. The challenge is the lead time required for it to be reflected in annual reporting.

We hope to see progress in this area by the time of our next review.

¹ Office of the Auditor-General, Annual review briefing to the Primary Production Committee, 1 December 2016, pp.7–9.
Landonline survey and title system

Landonline is the database that LINZ uses for land dealings, which is used every day by property professionals. We heard that it is a robust, reliable, and secure service that officials around the world want to learn from.

However, it was introduced in 2000 and LINZ is now working on replacing it. The new system, Advanced Survey and Title Services (ASaTS), will increase the services available to people buying, selling, and developing property. It will also enable LINZ to have a complete picture of all land in New Zealand. LINZ has gone out to market for a supplier and expects ASaTS to be operational by 2021. We will watch with interest progress on this important project.

Staff levels

In 2015/16 LINZ had 531 permanent employees, an increase from 478 in the previous year. This was due to new positions being created in the Overseas Investment Office (OIO) and the Survey and Titles Operations business unit. We asked if staff resources are now at the right levels. We heard that LINZ has also improved its processes, and will reassess in about three months whether this is the right level of resourcing.

We were interested to know whether spending on external consultants has decreased. We heard that the OIO expects to spend more on external consultants in the coming year because of the nature of the changes made to the organisation.

Overseas Investment Office

The OIO is the part of LINZ that assesses applications from overseas investors wanting to invest in “sensitive” assets such as land, fishing quota, and high-value businesses.

The OIO received 183 overseas investment applications in 2015/16, of which 166 were accepted for processing.

Sale of Onetai Station

In 2014 Onetai Station in Awakino, north of Taranaki, was sold to a Panamanian-registered company called Ceol & Muir Inc (CMI). The OIO recommended that Ministers approve the application to buy the station despite being aware of allegations against the Grozovsky brothers who owned CMI. It was alleged that another company they partly owned in Argentina had discharged more waste into a river than allowed. We asked whether the Minister was told of these allegations at the time. We were told that the OIO had not passed on the information to the Minister, but that the chief executive had subsequently apologised to the Minister about this.

The OIO investigated this purchase in early 2016 after the leak of the Panama Papers showed that CMI was incorporated by Mossack Fonseca. The OIO found some inaccuracies in what it had been told about the ownership structure of CMI at the time of the application. CMI had also omitted to tell the OIO that there were allegations of polluting an Argentinian river against the two brothers. However, the OIO knew about the allegations when it completed its good character assessment.

After its investigation, the OIO issued a formal warning to the owners and to CMI about the need to supply complete and accurate information. It also inspected the property and requested progress reports on Onetai Station in accordance with the conditions of the station’s purchase.
The case regarding the pollution of the river is still before the Argentinian courts. However, we were told that if the brothers are convicted then LINZ expects to be told of this and will act accordingly.

We were interested to know how many formal warnings OIO has issued in the past five years. We were told that it has issued five, of which two were in 2015/16 and concerned CMI.

**Assessment of the “good character” test**

In May 2016, Peter McKenzie QC was asked to review OIO processes for establishing “good character” under the Overseas Investment Act. The report, released in June 2016, found that the OIO’s systems for checking good character are sound, but made three recommendations.2

We asked what progress the OIO has made in implementing these recommendations. We heard that the OIO has now put in place a risk-based approach to assessing all applications. If an application is considered low risk, with a repeat investor who has a good record, then it is not scrutinised as closely as a high-risk or complex application. This has enabled the OIO to shift resources into high-risk applications. Senior staff are involved at an earlier stage of the application process to identify the key issues and risks. Complex applications also now have an advisory group that monitors the process. All research on applicants is now retained, and applications are peer reviewed before going to a decision maker.

We learned that, between 1 January 2012 and 30 June 2016, the OIO did not decline any applications on the basis of good character. However, 61 applications were withdrawn or allowed to lapse. We were told that applicants often withdraw an application early on in the process. The reasons vary, but include the OIO’s questioning of the information it has been given.

**Time taken to process applications**

The OIO has been able to reduce the time it takes to process applications by 20 percent. This followed a series of workshops with more than 150 lawyers, advisers, and others to discuss how to work better together.

The OIO told us it is confident that it can reduce processing times even further. Its application process is now designed to get as much information as possible at the start so that it does not have to go back to an applicant for further details. This should reduce processing times without compromising the quality of decisions.

Some of us commend it on good progress in implementing changes within the organisation. We will watch with interest developments over the next 12 months.

**Divesting Crown property**

LINZ buys, manages, and sells property on behalf of the Crown. It is the guardian of almost two million hectares of land—about 8 percent of New Zealand—and manages about 16,000 Crown properties worth around $1 billion.

In accordance with Government policy, it is working to free up $80 million worth of surplus government property, and is helping other government agencies sell their surplus

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land too. This supports broader Government efforts to make Crown land available for urban development.

Some of us are concerned that land being disposed of by LINZ is of value to the public and the Crown, including as a land bank for settlement of treaty claims, and should be retained by the Crown rather than being privatised.

We heard that, as LINZ has a good track record with selling land, other government agencies have signed agreements for it to sell properties on their behalf. LINZ has entered into eight memorandums of understanding with agencies which will enable it to develop a clearer picture of what the issues are. LINZ now has a better picture of what land the Crown owns. We were told that some mechanisms are now in place for the sale of these properties.

Properties in rural areas

We asked about old school buildings in rural areas standing empty for long periods of time and how this linked to the strategic objective of unlocking the value of property.

We heard that LINZ is working on how to value such properties. It is a difficult task, involving qualitative as well as quantitative research. However, since LINZ took over the management of school properties, it has reduced the disposal time from 42 months to 15 months.

We are also concerned about the number of Crown properties that have been sold and are still vacant, or in some cases derelict. For example Pātea hospital, which was sold for $25,000 despite a much higher valuation, is still to be developed by the new owner.

We were told that many of these properties are not on LINZ’s books. It is encouraging government departments to pass the management of these properties on to LINZ.

We recommend that LINZ examine this issue further. We suggest that it put conditions in its contracts so that these properties are developed and not left to fall into disrepair.

Christchurch residential red zone

In December 2015, LINZ took over responsibility from the Canterbury Earthquake Recovery Authority for clearing and managing land in the residential red zone. This includes about 8,000 residential properties. LINZ will be responsible for completing the demolition and clearance of residential red zone properties in the flatlands and Port Hills areas, and for interim management of the land.

Elevation data

LINZ has a strong focus on the use of geographical information to build New Zealand’s resilience to natural disasters.

We heard that LINZ has completed a project to improve information on vertical data, which measures the height of land and its features. This will help with modelling how water will move during a storm, in particular when there is flooding as that is New Zealand’s most common natural hazard. It will also provide a consistent measure for monitoring sea-level rise. We heard that this tool is now available to over 30,000 registered users who use the LINZ data service.
LiDAR data

LiDAR\(^1\) data is useful because it provides very detailed information about land, enabling better decision-making around land use. It can also help after an event like an earthquake to see what has happened to the land.

We asked why LINZ does not have complete LiDAR data for the whole country. We heard that it is a priority for LINZ in the upcoming Budget, and it is working on some critical areas around the country. It also has a pilot programme in Northland for collected LiDAR data. We were told that it can be challenging to collect the data because of difficult terrain.

We were also told that LINZ co-ordinated a project with regional councils several years ago to create a complete image map of the country. However, LiDAR data will provide more detailed maps.

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\(^1\) This is a surveying technology similar to radar that measures distance by illuminating a target with a laser light.
Appendix

Committee procedure
We met on 1 December 2016 and 9 March 2017 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
Rino Tirikatene

Steffan Browning was replaced by Eugenie Sage for this item of business.

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:

Office of the Auditor-General, Briefing on Land Information New Zealand, dated 1 December 2016.

Land Information New Zealand, Responses to written questions, received 28 November 2016.

Land Information New Zealand, Responses to post-hearing questions, received 27 January 2017.
2015/16 Annual review of Landcorp Farming Limited

Report of the Primary Production Committee

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Recommendation
The Primary Production Committee has conducted the annual review of the 2015/16 performance and current operations of Landcorp Farming Limited, and recommends that the House take note of its report.

About Landcorp Farming Limited
Landcorp Farming Limited is a State-owned enterprise, created out of the Department of Lands and Survey in 1987. It is one of the largest farming organisations in New Zealand, farming 144 properties in dairy cattle, sheep, beef cattle, and deer.

Its purpose is to “transform New Zealand farming”, by creating quality natural products. It strives to be a leader in New Zealand agriculture for best practice in pastoral farming, sustainable use of resources, and continuous improvement in livestock genetics and farming systems.

Financial performance
Landcorp’s total assets increased to $1.79 billion in 2015/16, up from $1.77 billion in 2014/15. It generated total revenue of $209 million, about 7 percent less than in 2014/15. This decrease was primarily due to a drop in livestock and milk revenue.

Landcorp made a net operating loss of $9.4 million in 2015/16, compared with a $4.9 million profit in 2014/15. This loss was largely because of changing milk prices. Reflecting changes in livestock values, Landcorp recorded a net profit after tax of $11.5 million, compared with a $20 million loss in 2014/15.

As in the previous year, Landcorp did not pay a dividend for 2015/16. The value of the Crown’s investment in Landcorp is estimated at $1.4 billion.

Transformation of Landcorp and the Pāmu brand
In 2015 Landcorp introduced a new brand, Pāmu, to identify high-quality food and fibre produced by Landcorp farms. The Pāmu Promise (which covers people, animals, the environment, and systems and innovation) is an organisation-wide performance and quality framework intended to connect Landcorp’s farms with the Pāmu brand. It seeks to provide assurance to customers about the quality, integrity, and sustainability of the products.

Landcorp said the Pāmu Promise has changed its approach to how it operates its farms, its investment in health and safety, and commitment to the environment. Previously, it focused some of its investment on converting farmland to dairying, but it has shifted into alternative high-value uses such as deer and sheep milking, and organic systems.

The risk of inconsistent quality assurance increases as Landcorp enters into joint ventures to deliver its Pāmu brand. Landcorp told us that it supports the reduction of complexity and duplication of quality assurance systems across the industry. Landcorp hopes to do this by creating its own quality assurance framework for its Pāmu brand. This includes developing long-term partnerships with those who recognise the value proposition of its Pāmu brand. We look forward to seeing detailed reporting on the impact of the Pāmu
brand on Landcorp’s commercial performance from its on-farm activities and along the value chain.

**Health and safety**

Improving the culture and conditions for health and safety is a key component of the Pāmu Promise. We asked if the Health and Safety at Work Act 2015 increased compliance costs. Landcorp told us that costs have been largely self-imposed, in response to recent fatalities and a general need to increase safety performance. We will continue to monitor Landcorp’s focus on the health and safety of its employees.

**Environment**

The Pāmu Promise also entails protecting and enhancing the environment through innovative farming. Landcorp told us that it is too early to quantify the benefits of this environmental approach. However, it is committed to its environmental work and the enhanced commercial outcomes. We look forward to seeing reporting on the benefits and gains from this investment.

**Measuring social impact**

We asked whether Landcorp has calculated the intangible returns that it provides to its shareholders and the wider public through its practices for the social good.

Landcorp noted that activities undertaken for the good of industry can differ from those undertaken as a result of instructions from shareholders. However, in its case it does not believe the difference is significant. To a large extent, the social good it creates is also underpinned by strong commercial directives. For example, taking a proactive stance on health and safety or environmental mitigation has long-term commercial benefits as well as benefitting the public. It added that one feature distinguishing it from some large commercial farming operations was its structure and regional dispersion. Its farms are in more marginal areas, rather than in Taranaki or Waikato.

We would be interested to see Landcorp make an effort at quantifying and reporting the benefits it provides outside a normal business model.

**Evolution of organic farming**

Landcorp told us that it has a new organics programme that includes two new organic dairy farms in the North Island, selling organic products to Fonterra.

Landcorp also told us that its organic farms are attracting new people into the industry because it provides the experience of different farm systems. However, organic farming entails different processes. Transitioning to these processes requires a change in mind-set that can be a challenge.

We hope that Landcorp can help the organics industry grow and prove that it is a viable long-term method of farming in New Zealand.

**Conversion of the Wairakei estate**

Wairakei estate is a 25,685-hectare farming operation leased to Landcorp. In 2015/16, Landcorp changed its plans to convert the estate from intensive dairy farming to other land uses. We asked about the change in direction and how it has affected its operating loss this past financial year.
Landcorp told us that the change in conversion of the estate was driven by two factors. First, it viewed putting 37,000–40,000 cows on the estate as unsustainable, leaving it too exposed to dairy commodity prices. Second, Landcorp wanted a higher commercial return than dairy farming.

**Sale of farms**

As part of a review and reconfiguration of Landcorp’s farming portfolio, nine farms have been earmarked for sale in 2016/17. Six are in the South Island and three in the North Island. They cover more than 14,000 hectares and are all sheep, beef, and deer farms. Landcorp told us it expects to sell the farms on the open market.

**Relationship with iwi**

We asked about Landcorp’s relationship with iwi and Māori land interests, and whether it works with Māori groups when selling its farms. Landcorp told us it has a close working relationship with the Office of Treaty Settlements regarding claimant groups. It also has relationships with Māori authorities and iwi incorporations that have previously bought Landcorp farms. As part of Landcorp’s Pāmu brand, it has a close relationship with Atihau-Whanganui Incorporation, which is a Māori land incorporation managing vested land.

**Centralisation of staff**

Landcorp has 704 permanent employees, including about 100 in its Wellington head office. We asked how this highly centralised staff compares with similar businesses, and whether devolving would reduce overhead costs.

Landcorp said it covers four species of livestock and is continually expanding its range of land uses, so it is difficult to make comparisons with other corporate operators that tend to be smaller and focused on one species.

Landcorp also operates “post-farm-gate” in many areas of the business. It sees it as desirable to coordinate livestock and market activities in a centralised fashion.

Landcorp told us it constantly looks for ways to reduce its overhead costs in Wellington. If it were to devolve its staff, similar to a traditional model of New Zealand farming, it would lose the value of Landcorp as an entity. If devolved, Landcorp would become 144 individual farms instead of one entity managing 144 farms.

We will continue to monitor the performance of Landcorp to see whether its centralised business model contributes to improved financial results over time.

**Attracting people into agriculture**

We recognise that agriculture faces an industry-wide problem of high staff turnover. Landcorp told us that two factors contribute to this. First, working conditions on a farm can be dangerous, in terms of both injury and stress. Second, it is hard to attract people to farming who have not considered farming before.

Landcorp has various strategies to attract new people into the industry and combat high turnover. Initiatives include direct outreach to schools in the West Coast and far North, as well as collaboration with tertiary institutes, and swapping staff with other farms.
It also aims to improve its employment brand through the Pāmu Promise and sharing the stories of outstanding Landcorp farmers such as Rebecca Keoghan, Dairy Woman of the Year 2016, and Jack Raharuhi, Ahuwhenua Young Māori Dairy Farmer 2016.

We commend Landcorp for its initiatives in attracting people into its business and agriculture, and the career progression offered.

**International trends in growing artificial food**

One of the growing international trends in the agricultural sector is cultured meat. Cultured meat is grown in a cell culture instead of in an animal. We were told that the board is looking closely at the trend and views it as a long-term threat to New Zealand’s pastoral sector. Landcorp considers cultured meat a growing segment of the market. If cultured meat becomes the dominant form of meat production, Landcorp hopes that naturally grown meat would retain a premium.
Appendix

Committee procedure
We met on 16 February and 23 March 2017 to consider the annual review of Landcorp Farming Limited. We heard evidence from Landcorp and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:


Landcorp Farming Limited, Responses to questions 1–102, received 31 January 2017.

2015/16 Annual review of the Ministry for Primary Industries
Report of the Primary Production Committee

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Appendix 6
Ministry for Primary Industries

Recommendation

The Primary Production Committee has conducted the annual review of the 2015/16 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) supports the primary sector in New Zealand. Its core business covers biosecurity, food safety, primary production, trade, and Crown forestry.

The ministry employs more than 2,400 people across New Zealand and in overseas offices. The primary sector overall has achieved $36.7 billion in exports for the year under review despite the difficult global market affecting dairy prices. Primary industry export revenue is forecast to increase by 12.5 percent in 2018.

Financial performance, controls, and reporting

In 2015/16 the ministry’s total revenue was $458 million, up from $425 million the previous year. The increase was due to several factors, including the introduction of the border clearance levy and new levy rates for the biosecurity system. The ministry had an operating surplus of $6.8 million, compared with $8.9 million in 2014/15.

The Office of the Auditor-General noted that the ministry has a sound management control environment, with many good practice features, and that it has continued to improve its non-financial reporting. The Auditor-General rated as “good” the ministry’s performance information and associated systems and controls in 2015/16, up from “needs improvement” the previous year. We hope to see the ministry act on the Auditor-General’s recommendations for further improvements in the coming year.

New initiatives

We heard that the ministry established two initiatives in the past year which are intended to promote environmentally responsible primary industries. The first is a primary industries economic intelligence unit (EIU). This initiative provides information about markets for exporters. For example, for Singles Day in China, the biggest trading day in that country, about 70 percent of people in Shanghai choose to buy New Zealand-made products. MPI is able to gather this information to help its stakeholders selling products in those markets. The EIU will also investigate whether there are any market-access issues for countries that New Zealand has a trade agreement with.

We asked whether this initiative duplicates work that the Ministry for Business, Innovation and Employment (MBIE) does. We were told that MBIE does not do a great deal of work in the primary industries area. MPI is also able to add value as it has access to information that other Government departments may not have.

The second initiative is the development of a regulatory advisory service. This service helps New Zealand export businesses to understand how to meet market requirements. MPI has
improved its customer service to these businesses by having fewer points of contact and ensuring that it finds answers to businesses’ questions.

Project Origin

Origin Green is a voluntary initiative by the Irish Food Board that encourages food and drink manufacturers to demonstrate a commitment to operate in the most sustainable way possible.

We asked whether MPI is working on a similar initiative for the primary sector in New Zealand. We heard that it has started a low-level project called Project Origin to see how it can build on New Zealand’s clean, green image. It is in its early stages and MPI is still considering what role it would play and whether it would use the same criteria as in the Irish example.

We asked whether MPI should devote more resources to this project, since it has a goal of maximising productivity within environmentally sustainable limits. MPI said it first needs to prove the value of its involvement. It said that primary industries are also keen to support this type of project, which will be important for its success. We will watch developments in this area with interest.

Future of our Fisheries

The Future of our Fisheries programme is intended to modernise and future-proof New Zealand’s fisheries system. One of the main aims of the programme is to review the current regulatory and legislative settings for the fisheries management system.

MPI developed the Future of our Fisheries programme after talking with tangata whenua, sector groups, key stakeholders, and the wider public in late 2015 as part of a Fisheries Management System Review.

We asked how MPI is protecting Māori fishing rights, particularly in relation to the programme’s proposal for shared fisheries. We were told that there are some misconceptions about the programme and that it does not affect Māori fishing rights or the quota management system. MPI held 11 hui around the country as part of its consultation process. Feedback from these meetings will be analysed.

Fish stocks

We asked how confident MPI is in the accuracy of the science behind its assessment of the levels of fish stocks in New Zealand. It said that information on stock levels is comprehensive; it invests more than $22 million each year in fisheries science research to support these assessments. The research involves scientists from within MPI, universities, industry, and non-governmental organisations.

If fish stocks get too low then MPI is able to intervene. For example, it closed the Marlborough Sounds and part of Tasman Bay to recreational and commercial scallopers in July 2016 as stocks were too low. They will reopen in early 2017.

We heard that funding for scientific research into fish stocks has been static for several years. MPI is aware of the issue, and will be investigating it.

We were told that other sources of funding are also available. For example, the Sustainable Seas Challenge, launched in 2014, provides funding for research into how to best use marine resources within environmental and biological restraints.
Prosecutions

We asked what safeguards are in place to ensure people are prosecuted when they are caught discarding or dumping fish. We heard that MPI adheres to the Solicitor-General’s prosecution guidelines and seeks advice from Crown Law. The regulations are now also much tighter. In 2015 there were 253 prosecutions.

Primary Growth Partnerships

The Primary Growth Partnerships (PGPs) now comprise 19 programmes, with $727.9 million invested.

We asked how well the PGPs in the red meat sector were performing. We heard that all the programmes have achieved growth, and the chief executive is happy with the outcomes of this programme.

Biosecurity

We heard that most travellers declare food they bring into the country, and much of it is compliant. Because such checks are very time-consuming, MPI is now focusing on educating visitors that much of the food they want to bring in can actually be bought in New Zealand.

We asked whether the passenger arrival cards that all visitors on international flights must fill out are too complicated. MPI said it has been working with Customs to develop a small-scale trial that would allow accredited, low-risk travellers and traders to move more quickly through the border. This trial is expected to begin in late 2016.

Freshwater quality

We asked whether the National Policy Statement for Freshwater Management should state that rivers should be swimmable, not just “wadeable”. We were told that this is a matter for the Government to determine. Some of us are concerned that New Zealand cannot promote itself as clean and green if its rivers are not swimmable.

We asked if there is tension between MPI’s objectives and those of the Ministry for the Environment (MfE). MPI promotes irrigation for farming, which can increase nitrate run-off into rivers, while MfE has a fund to help clean up fresh water. We heard that MPI promotes the use of Overseer, a nutrient management software programme, to help manage the levels of nitrate in water. This enables the primary industries sector to help keep nutrient levels in balance.

Emissions trading scheme

Given that one of MPI’s outcomes is being resilient to adverse climatic events, we asked whether it has provided any advice to Ministers about including agriculture in the New Zealand Emissions Trading Scheme. This would mean that the agricultural industry would have to take into account its greenhouse gas emissions. We heard there are ongoing discussions with the Minister about this issue but they are confidential.

MPI is working with industry through a newly created group called the Biological Emissions Reference Group (BERG). The group is jointly chaired by MPI and DairyNZ. Its purpose is to understand and agree on what can be done to reduce on-farm emissions, and to establish what the costs and opportunities of doing so are. MPI said that BERG’s work is necessary to inform any new actions or policies to reduce New Zealand’s domestic
agricultural emissions while also supporting growth initiatives. An interim report is due in early 2017.

**Compliance officers**

MPI has developed a national direction for officers in fisheries, animal welfare, food safety, and investigations. Implementing this new directive will involve many changes including new training for the officers.

MPI is also merging its offices in order to be more efficient. In Auckland it will downsize from 10 locations to four once a new facility being built by Auckland airport is finished. There will be similar changes in Christchurch and two other locations. It expects compliance benefits from these changes.

**Fisheries officers**

We note that there has been no increase in the number of full-time-equivalent fisheries officers, and that the number of prosecutions has fallen. MPI told us it has more people in compliance roles than three years ago and that many fisheries officers are multi-warranted, also operating as animal welfare officers. Honorary fisheries officers are also involved with fisheries compliance.

**Video monitoring of fishing vessels**

We note that the number of observer days in the snapper trawl fishery has reduced. In 2015/16, there were 233 sea days across a range of vessels, which is fewer than there were two years ago.

In 2017/18, MPI will introduce a new integrated electronic monitoring and reporting system (IEMRS) which will supersede the current video monitoring system. MPI will still have the right to put observers on boats under the new system.

We asked whether observer days would be further decreased once video monitoring on fishing vessels is fully established. We were told that this is not the plan. The ministry said that often the vessels do not have enough room for observers, which is why it uses cameras. MPI added that it looks at more footage than any other agency in the world; two observers view footage from vessels on a daily basis.

We asked if MPI will have independent companies providing the monitoring equipment for the vessels for IEMRS. MPI said it will adhere to Government procurement rules and will set all technology standards and specifications for the supplier.

**Primary industry champions**

We were told that, by 2025, primary industries will need approximately 49,000 workers, so MPI is seeking to encourage people into the industry. In June 2016, it launched videos called “Growing Our Future — Primary Industry Champions” aimed at attracting more people to work in primary industries. MPI also has about 200 high-performing farmers as ambassadors who go into schools to meet young people and encourage them to work in primary industries.

Some of us are concerned to note that there have been cuts in funding for tertiary level agricultural courses. MPI said that providing agricultural education is not part of its role, but it is concerned about this. It has regular discussions with the Minister and has previously spoken to the Tertiary Education Commission about funding levels. We will continue to support MPI in its efforts to promote primary industries.
Appendix

Committee procedure
We met on 8 December 2016 and 9 March 2017 to consider the annual review of the Ministry for Primary Industries. We heard evidence from the ministry and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Steffan Browning was replaced by Eugenie Sage for this item of business.

Evidence and advice received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:

Office of the Auditor-General, Briefing on Ministry for Primary Industries, dated 8 December 2016.

Ministry for Primary Industries, Responses to written questions 1–138, received 6 December 2016.

Ministry for Primary Industries, Responses to supplementary questions, received 7 February 2017.
2015/16 Annual review of the New Zealand Walking Access Commission

Report of the Primary Production Committee

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New Zealand Walking Access Commission

Recommendation
The Primary Production Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Walking Access Commission, and recommends that the House take note of its report.

About the Walking Access Commission
The New Zealand Walking Access Commission is a Crown entity governed by the Walking Access Act 2008. The commission’s purpose is to lead and support the negotiation, establishment, maintenance, and improvement of walking access. Its role also covers other rights of access, such as for firearms, dogs, bicycles, or motor vehicles, over public or private land.

Financial performance and audit opinion
In 2015/16 the commission’s total revenue, primarily from the Crown, was $1.916 million, a fraction less than in 2014/15. Total expenditure in 2015/16 was $2.376 million, about 26 percent more than in 2014/15. The increase in expenditure is attributed to a loss on the disposal of intangible assets.

We were pleased to see that the Auditor-General rated the commission’s management controls and financial information systems and controls as “very good”. We note the Auditor-General’s recommendation that the performance measures reported in the commission’s annual report could tell its performance story more effectively. We hope that the commission will consider over the coming year how it can improve its performance reporting.

Relationship with the Overseas Investment Office
A primary function of the commission is to negotiate the establishment of walkways over private land. It works in consultation with the Overseas Investment Office (OIO) to secure walking access across private land that is being sold to overseas buyers. We asked about the commission’s process for negotiating access with overseas investors via the OIO, and any challenges it has faced.

We heard that the OIO often does some initial work to determine if access is needed, before alerting the commission about an application for purchase. Where access may be needed for the public, the applicant is referred to the commission by the OIO. The commission then negotiates with various parties, including the Department of Conservation, to secure access.

We were pleased to hear that the commission has faced very few challenges while working with the OIO and negotiating access with overseas buyers. It said the majority of overseas buyers come from countries where access is long-established and common. On occasion, the commission faces a longer negotiation phase while finer details are discussed.
In 2015/16, the commission provided advice on access conditions for more than 50 property sales to overseas investors. We are confident that the commission is working closely with the OIO and overseas buyers to secure access for future use.

**Planning walking access into urban areas**

The commission currently has a pilot project in the Auckland area to design walking access as part of the development of urban areas. It said that when such access is planned for in urban areas, connections between communities are created and maintained more easily.

The commission’s experience with the project so far has been positive. It acts as a facilitator in meetings and seminars with interested parties, and prompts councils to be proactive in making provision for walking access.

We heard that current legislative mechanisms are sufficient to allow the commission to build access. We will monitor the situation to ensure the legislation remains fit for purpose.

**Cycleway from Picton to Kaikōura**

Bike Walk Marlborough is a registered trust responsible for the promotion, location, and facilitation of walking and biking around Marlborough. It has put together a plan to create a cycleway from Picton to Clarence on State Highway 1. The recent earthquake in Kaikōura/Hurunui in November 2016 has provided the opportunity to advance and extend that plan to Kaikōura.

We asked if the commission had discussed the proposal with the New Zealand Transport Agency (NZTA). The commission said it had not been involved in the planning process. We suggest that it meet with the Kaikōura District Council and the NZTA to discuss incorporating a cycleway in plans for the rebuild of State Highway 1.

**Evolution of multi-use tracks**

Recreational tracks in New Zealand are increasingly becoming multi-use, allowing for walking, cycling, or horse-riding. We asked whether access for cycling is becoming more prevalent and even expected. The commission said the creation of cycle tracks is largely dealt with in local communities, while it tends to deal with issues at a higher level.

One challenge facing the commission is the demand for equestrian tracks. Vehicles are the dominant form of transport in New Zealand and it is no longer safe or practical to ride horses on roads. The commission told us it is working with equestrian interest groups around New Zealand as there is potential to develop equestrian tracks.

We asked the commission if its title should be the New Zealand Access Commission, as its scope goes beyond walking. The commission does not consider it necessary to change its name, but notes that its primary focus is on tracks that can be multi-use.

**Relationship with iwi**

We asked what success the commission has had with access over Māori land. The commission indicated that more work is needed to expand its understanding of Māori issues as they pertain to roadways and access in general. It is aware that Te Ture Whenua Māori Bill, if passed, will have an impact on Māori land that could affect access.

We note that the commission has begun forming relationships with iwi across New Zealand, including Ngāi Tūhoe and Te Whānau-ā-Apanui. We are pleased that it is giving priority to relationships with iwi, and is endeavouring to grow those relationships.
Walking Access Commission Mapping System

The commission compiles, holds, and publishes maps about walking access over land. It produces the Walking Access Mapping System (WAMS) as a public resource about access. This includes topographic maps, aerial photography, and information about the boundaries of private land.

Unformed legal roads

We are interested in unformed legal roads, and asked whether there are publicly available maps. The commission told us that all unformed legal roads and easements are illustrated on the WAMS.

The commission can also enter into agreements with farm owners to shift walking access to a more practical place, such as along a boundary line. We were pleased to hear that the commission has not had any issues with complaints over misuse of access.
Appendix

Committee procedure
We met on 9 February and 23 March 2017 to consider the annual review of the New Zealand Walking Access Commission. We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website under Submissions and Advice. They are listed below:
New Zealand Walking Access Commission, Responses to questions 1–102, received 31 January 2017.
New Zealand Walking Access Commission, Appendix 1a (statement of intent), received 31 January 2017.
New Zealand Walking Access Commission, Appendix 1b (statement of performance expectations), received 31 January 2017.
New Zealand Walking Access Commission, Appendix 2 (quarterly reports), received 31 January 2017.
New Zealand Walking Access Commission, Appendix 3 (WAMS survey), received 31 January 2017.
New Zealand Walking Access Commission, Appendix 4 (gifts and hospitality policy), received 31 January 2017.
New Zealand Walking Access Commission, Appendix 6 (contractors), received 31 January 2017.
2015/16 Annual review of Quotable Value Limited
Report of the Primary Production Committee

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Quotable Value Limited

Recommendation

The Primary Production Committee has conducted the annual review of the 2015/16 performance and current operations of Quotable Value Limited, and recommends that the House take note of its report.

Introduction

Quotable Value Limited (QVL) has been a State-owned enterprise since 2005. The core business of QVL is providing valuation and property information services.

QVL has been diversifying its range of services away from its traditional rating value service towards providing property information, contestable valuation, and property management.

In 2015/16, QVL reported total revenue of $38.2 million, down from $42.8 million in 2014/15. Its net profit after tax was $16 million, an increase from $4.6 million in 2014/15. Most of this profit was from gains from the sale of its 40 percent stake in CoreLogic, an associated company that provides property information and analytics. QVL paid $24.1 million in dividends to the Crown.

Revenue

We heard that the sale of CoreLogic has changed QVL’s balance sheet. The capital that QVL has realised from the sale has enabled it to reassess its infrastructure to ensure that it is still fit for purpose. QVL has done work to ensure that it meets the needs of its customers, including improving the basic platform that it uses to produce valuations.

QVL told us that it is working to free up capacity by improving efficiencies and that it expects to realise $1 million in savings from its new IT project. We were pleased to hear that QVL has budgeted to continue to return 60 percent of free cash to the Crown.

QVL told us that it is open to future joint ventures, and it is aware that other organisations are interested in the data it produces. However, it is not expecting to make any further acquisitions. QVL also noted that it has a mutual benefit agreement with CoreLogic.

Better use of available data

We heard that QVL is transforming its core business to make sure its data is available to customers in real time. We were told that QVL has re-established the position of Chief Data Officer to help drive improvements in data usage.

Part of this transformation includes using greater automation in producing its reports, which may change its relationship with banks. QVL is educating the banking sector on the accuracy of the online information it offers to keep its relations with the banking sector strong.

We heard that QVL accumulates different data sets from local and international data when calculating valuations, so that it is able to be more predictive.
QV homeguide app

We were interested to learn more about the QV homeguide app. This provides access to independent and authoritative information on any home, on or off the market.

The app uses CoreLogic data to provide users with the important details they need to make informed property decisions. We were very impressed with the information contained in the app and its usability.

Earthquakes

We were interested in learning more about how QVL produces rateable values on properties that had been affected by recent earthquakes in Christchurch and Kaikōura/Hurunui.

QVL did its regular revaluation of Christchurch in 2013. Before QVL did this revaluation, the Government passed an Order in Council that meant that properties were valued as if they had been undamaged by the seismic events. Property owners were able to object to their valuations, and any objections were processed under the same parameters.

QVL is doing a new revaluation in Christchurch, with the Order in Council no longer in force. We heard that there are considerably fewer objections to the latest round of valuations.

QVL told us that it was sending out the revaluation letters to local property owners the week that the Kaikōura/Hurunui earthquake hit. The local council confirmed that it was happy to proceed with the revaluation round and process objections on a case-by-case basis.

Workforce planning

We are aware that registered valuers are in high demand. We heard that valuers are ageing as a cohort and that QVL has started to address its future workforce needs—for example, by providing university scholarships.

QVL is the biggest employer of property graduates in New Zealand. QVL identified its challenge as attracting people to the business—once recruited, staff tend to stay. The average tenure of staff is 10 years.

We heard that automation of lower-level tasks has enabled senior valuers to specialise or to mentor newer staff. We heard that QVL is also looking at its remuneration structure to identify different ways to reward staff, so that it can differentiate itself from competing employers.

Rural valuations

We were interested in how QVL services the rural market. We heard that QVL has identified the rural market as a growth area and that it is looking to improve the services it offers to rural clients.

QVL employs the most rural valuers in New Zealand. However, it does not have enough capacity in its rural valuation team to do all the jobs that are available. QVL expects that future rural values will be influenced by environmental factors. We will be interested in how QVL continues to support the rural market.
Appendix

Committee procedure
We met on 9 and 23 March 2017 to consider the annual review of Quotable Value Limited. We heard evidence from Quotable Value Limited and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O’Connor
Richard Prosser
Stuart Smith
Rino Tirikatene

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:
Quotable Value Limited, Responses to questions 1–102, received 30 January 2017.
2015/16 Annual review of appropriations within Vote
Building and Housing

Report of the Social Services Committee

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Appendix 6
Appropriations within Vote Building and Housing

Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations associated with the use of appropriations within Vote Building and Housing, and recommends that the House take note of its report.

Introduction

Usually, whole entities are allocated to select committees for annual review. The 2015/16 annual review of the Ministry of Business, Innovation and Employment was allocated to the Commerce Committee. However, Vote Building and Housing appropriations were separated out and allocated to us, enabling us to complete a cycle that began in mid-2015 when we scrutinised the Vote Building and Housing Estimates for 2015/16.

The ministry administers much of the Vote Building and Housing appropriations, so that is the entity we heard from for this annual review. (We examined appropriations administered by other entities, such as Housing New Zealand Corporation and Tāmaki Redevelopment Company Limited, as part of our 2015/16 annual reviews of those entities.)

For 2015/16, $322.186 million was appropriated for Vote Building and Housing, including through the supplementary appropriations.

We heard that the ministry supports the portfolio with a policy team that deals with issues about housing and construction regulatory systems. It also has a team that enforces regulations—for example, the new tenancy regulations.¹

New houses

The ministry said that demand for housing has increased with population increase. House construction in New Zealand has been growing since the global financial crisis in 2008. We heard that the construction sector makes up about 5 percent of New Zealand’s gross domestic product (GDP) and that the construction sector is a significant employer in New Zealand.

Two initiatives to help make more houses available are Special Housing Areas and the Crown land development programme.

New homes in Auckland

The ministry anticipates that, in total, plans for 25,264 new homes in Auckland will have received consent and will be ready for construction to start in 2017.

In relation to Crown construction, government agencies (including Tāmaki Regeneration Limited, Housing New Zealand, and Hobsonville Land Company) finished building 653 homes in Auckland in 2015/16. The ministry expects this number to increase during the next few years. The ministry estimated that about half of these homes are classed as “affordable”.

¹ Residential Tenancies (Smoke Alarms and Insulation) Regulations 2016.
No homes have yet been completed under the appropriations for Auckland Housing Developments. We heard that almost 30 hectares of vacant Crown land were available for development in Auckland by early 2017.

The ministry focuses on land that will yield the greatest number of homes, rather than just freeing up the most hectares of land. This is because the density of homes varies for each development, with inner-city developments yielding more per hectare than suburban settings.

**Construction workforce**

The ministry said that one medium-term action to help increase the supply of workers in the construction industry is disseminating information about what careers and qualifications people could choose. The second is making sure the immigration system works satisfactorily, to enable qualified workers to come in from overseas if warranted.

The ministry said it keeps an eye on charge-out rates in the construction sector, because they affect affordability.

**Price of building materials**

We asked what work the ministry is doing about the very high prices of building materials compared to overseas prices. We heard that, because the New Zealand market is small, it has been difficult to attract and keep new suppliers here. The ministry said it would like to see a more competitive sector. We heard that it has investigated using government procurement to help promote competition.

The ministry has been supporting the Minister of Commerce and Consumer Affairs in reviewing whether the Commerce Commission could take an effects-based approach to competition. In the building supplies market, for example, this would allow the commission to consider whether the effects of practices such as rebates, discounts, and vertical integration are anti-competitive.

**Tāmaki redevelopment programme**

Much of the social housing in Tāmaki, south-east Auckland, is being redeveloped. We asked the ministry what it had learnt during the transfer of property from Housing New Zealand Corporation to the Tāmaki Redevelopment Company Limited.

The ministry said that community, participation, and engagement are vital. It commented on a short-term, unwanted effect of work to increase the housing supply: there are fewer properties available for tenants to live in as homes get relocated or removed to create space for the redevelopment.

The ministry informed us that no proper properties have been empty for more than two years after tenants were moved out.

**Infrastructure in new housing areas**

**Housing infrastructure fund for councils in high growth areas**

The Government intends to lend $1 billion to local councils for infrastructure development in Auckland, Hamilton, Tauranga, Christchurch, and Queenstown. Applications close at the end of March 2017, and we understand that, to the end of 2016, $1.8 billion worth of applications had been submitted.
We heard that the goal of this fund is to accelerate the building of houses. A panel will be appointed to assess, and advise Ministers on, the applications.

The cost of the initiative to the Government will be the foregone interest on the sums lent, and the exact amount would depend on the timing of repayments.

Some of us consider that $1 billion is not enough to unblock infrastructure constraints on urban growth. For example, the Auckland Council already has an infrastructure deficit of $17 billion to $20 billion.

**Other options for assisting infrastructure development**

The ministry has been working with councils and other agencies to find other ways to improve the regulatory environment for infrastructure development.

The Productivity Commission suggested targeted rates on the properties in a new development as a tool for growing infrastructure. The ministry said that councils are already able to levy targeted rates, within some constraints. It is making sure that that option is available as widely as it should be.

Urban development authorities are another possible tool to help streamline housing developments. We heard that the Government intends to consider this option. Consultation could begin in the next few months.

There are various models for urban development authorities. Some directly provide finance for infrastructure; others just do the high-level work.

We asked how the ministry would ensure that, in the end, direct infrastructure costs rest with new developments so that the right market signals about cost are sent. The ministry said that this is easier for the infrastructure immediately servicing the new development, but it is harder to allocate the costs of infrastructure upgrades that are further away from the development and that benefit a wider community. It is working to find an equitable way to do this.

**Deposit subsidy for first home buyers**

KiwiSaver HomeStart grants can provide up to $5,000 for eligible individuals and up to $10,000 for eligible couples to help buy their first home. For those building a first home, the grants can provide up to $10,000 for individuals and $20,000 for couples. In 2015/16, 15,411 first home buyers received these grants, valued at a total of $65.949 million.

To September 2016, slightly more than 20,000 grants had been made since the scheme began in April 2015, and a further 19,000 were in the pre-approval stage. The ministry expects these numbers to grow.

**Housing affordability indicator**

The ministry is developing a housing affordability indicator to represent the ratio between income and housing costs. It has been working with independent experts to make sure the measurement is robust. We heard that the measure will be more sophisticated than those currently in use. It will use data such as geographical location, household income, and ownership and rental information.

We were pleased to hear that the measure is in its final stages of development. The ministry expects the indicator to help it advise Ministers on helping disadvantaged groups.
We look forward to learning more about the housing affordability indicator in the near future.

**Earthquake-prone buildings**

In 2016, amendments to the Building Act 2004 set out time frames for identifying and strengthening earthquake-prone buildings in different risk regions. The ministry anticipates the amendments to come into force in July 2017.

The ministry told us that the three different earthquake risk zones were decided on after advice from the Structural Engineering Society New Zealand as well as from overseas engineers.

The ministry pointed out that every earthquake is different. Also, every earthquake teaches us more about how different kinds of buildings perform.

Since the November 2016 Kaikōura earthquakes, the ministry has worked with Wellington City Council and engineers to help building owners understand their obligations to secure and strengthen buildings. We heard that, overall, Wellington building owners are responding responsibly.
Appendix

Committee procedure
We met on 8 February and 22 March 2017 to consider the annual review of the appropriations within Vote Building and Housing. We heard evidence from the Ministry of Business, Innovation and Employment, 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
Matt Doocoy
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Ministry of Business, Innovation and Employment, Response to pre-hearing questions, received 3 February 2017.


Office of the Auditor-General, Briefing on Vote Building and Housing, dated 8 February 2017.

2015/16 Annual review of the Children’s Commissioner

Report of the Social Services Committee

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Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of the Children’s Commissioner and recommends that the House take note of its report.

Introduction

The Children’s Commissioner is an independent Crown entity operating under the Children’s Commissioner Act 2003. The commissioner is supported in his Wellington office by the equivalent of about 13.8 full-time staff.

During 2015/16, the commissioner was Dr Russell Wills. Judge Andrew Becroft started in the role on 1 July 2016.

Revenue in 2015/16 was $2.31 million, compared with $2.35 million in 2014. Total expenses were $2.22 million, compared with $2.18 million in 2014/15.

Overall, there was a surplus of $89,000, compared with a forecast of breaking even, a surplus of $167,000 in 2014/15, and a deficit of $37,000 in 2013/14.

The office delivered outputs in two areas:

- monitoring and investigations, including visits to Child, Youth and Family (CYF) residences (spending $1.11 million in 2015/16, compared with $1.316 million in 2014/15—a decrease of 15.7 percent)
- individual and systemic advocacy (spending $1.109 million in 2015/16, compared with $864,000 in 2014/15—an increase of 28.3 percent).

The commissioner pointed out that his office has not had a budget increase since 2009/10.

Key priorities

The commissioner told us that he set three priorities when he assumed office, along with ensuring the continuity of core business:

- to provide constructive input into the “investing in children” work that is building the new Ministry for Vulnerable Children, Oranga Tamariki
- to include 17-year-olds in the youth justice system
- to improve outcomes for tamariki Māori, by promoting better engagement and partnership with whānau, hapū, and iwi.

Child poverty

The office relies on $24,000 per year from a philanthropic trust1 to monitor child poverty. In addition, Otago University contributes to the research. The office contributes $11,000.

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1 The JR McKenzie Trust.
The commissioner told us about the Child Poverty Monitor, which identifies several measurements of child poverty, including such things as low household income and material hardship.

Material hardship measures how many items a child has access to, from a list of 17 that are considered essential in a household. About 155,000 New Zealand children, or 14 percent, go without seven of the items. The commissioner said that he is content to use the Government’s measure of those going without nine items. About 85,000 children, or 8 percent, go without nine items.

The commissioner considers it unproductive to debate which measures give the best idea of poverty. We heard that, in the end, there is no argument that about 85,000–90,000 under-18-year-olds live in “very significant, severe poverty and material disadvantage”.

We heard that it is more important to have a plan to reduce child poverty than to debate a perfect measure of child poverty. The commissioner reminded us that, in 2015, New Zealand signed an international agreement on Sustainable Development Goals. One of these goals is to reduce poverty by half by 2030.

The commissioner is optimistic that child poverty could be reduced with a “community-based, Government-led, cross-party approach to address the issue”. He noted that, some years ago, New Zealanders over the age of 65 used to be relatively disadvantaged but that this was successfully addressed using a cross-party approach.

**Effects of 2016 benefit increase**

We asked the commissioner whether he had seen any evidence that the 2016 benefit increase, of $25 per week per family, has affected child poverty statistics. He said that it is too early to tell.

In general, poverty has been an enduring issue since the financial crisis of the late 1980s and the Budgets of the early 1990s. We heard that poverty has been relatively stable since then. The commissioner told us that, in the early 1980s, income-related poverty was between 10 and 13 percent; it is now nearly 30 percent.

We wait with interest for statistics about poverty for the period after the benefit increase to become available.

**Monitoring residences**

The office monitors the nine CYF residences and 67 other CYF sites. We heard that it monitors about 10 sites each year, plus the residences.

We heard that, for the last three years, the office has visited the nine CYF residences once every 12 to 18 months. It would prefer to visit residences every six months, but it does not have enough resourcing to do so. We heard that six-monthly visits could be of shorter duration than current visits.

The commissioner would also like to be able to visit youth justice and care and protection residences in response to particular issues as they arise.

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2 The United Nations’ Sustainable Development Goals, Goal 1, target 1.2: “By 2030, reduce at least by half the proportion of men, women and children of all ages living in poverty in all its dimensions according to national definitions.”
He would also like to be able to monitor the transition of young people into the community.

**Youth justice**

The commissioner’s second “key priority” is on track to being achieved: we currently have a bill before us that would include 17-year-olds in the youth justice system rather than in the adult system. We asked the commissioner about the increase in pressure on residential facilities that the age increase may cause.

The commissioner is looking forward to the challenge of making sure that residences of 17-year-olds who have been through the youth justice system are properly monitored and assessed, whether they are youth justice residences or youth prisons attached to adult prisons.

The commissioner told us that there is evidence that certain 18- and 19-year-olds could be better dealt with in the Youth Court than in adult courts. He considers that, just as we can move some 14- to 17-year-olds into the adult system, we should be able to move some older teenagers into the Youth Court when appropriate.

He is also keen to address the use of police cells for young people on remand after their first appearance at the Youth Court.

**Child-centred policy and legislation**

The commissioner said that government agencies and the community should do better at factoring the voice of children into policy decisions. He is “astonished” at how few government departments have mechanisms for consulting appropriately with young people and children. He said that children enrich and add quality to policy debates but that they are often marginalised or their voice is assumed.

We heard that the CYF overhaul was a good example of a process that explicitly sought the views of children in several ways. The commissioner said that the new Ministry for Vulnerable Children, Oranga Tamariki, will employ a deputy chief executive with the title “Voices of Children”. The commissioner’s office also arranges an ongoing group of young people for the Minister to regularly consult with.

The office has published a resource on its website to help agencies include children in the policy process. Suggestions include small and large groups, online surveys, and visits.

The commissioner supports the idea of explicitly requiring the well-being of children to be a primary principle in all legislation. He said that it would be an exciting challenge to make sure that all bills explicitly show commitment to the perspective of people under 18 years old—who represent a quarter of the population.

We note that such a principle would be consistent with New Zealand’s international obligations under the United Nations’ Sustainable Development Goals.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 to consider the annual review of the Children’s Commissioner. We heard evidence from the Children’s Commissioner and received advice from the Office of the Auditor-General.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Children’s Commissioner, Response to pre-hearing questions, received 13 February 2017.
Children’s Commissioner, Response to post-hearing questions, received 15 March 2017.
# 2015/16 Annual review of the Families Commission

Report of the Social Services Committee

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Families Commission

Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of the Families Commission and recommends that the House take note of its report.

Introduction

The Families Commission is an autonomous Crown entity established by the Families Commission Act 2003. Since 2014, the Families Commission has operated as the Social Policy Evaluation and Research Unit (Superu).

The commission aims to increase the use of evidence by people working in the social sector, to improve the lives of New Zealand’s communities, families, and whānau. The commission seeks to fulfil its role by:

- acting as an advocate for the interests of families generally
- monitoring and evaluating programmes and interventions in the social sector and providing social-science research into key issues, programmes, and interventions throughout the sector.

Len Cook was appointed as the Families Commissioner and as the Chair of the Board of Superu in July 2015.

Financial and service performance

The commission’s total revenue for 2015/16 was $13.088 million, up from $11.354 million in 2014/15. Total expenditure was $12.247 million (compared with $11.744 million in 2014/15), resulting in a surplus of $841,000.

We asked the commission why it had achieved a significant surplus against a budgeted deficit of $826,000. The commission said that it had been able to carry over some funds that had been committed but remained unspent. These included funds for the “Growing Up in New Zealand” study that had not been spent because of delays in contract negotiations, and funds to answer ministerial questions, which had been fewer than anticipated.

The commission told us that its current work programme includes:

- evaluating the Prime Minister’s Youth Mental Health Project
- managing the contract for the “Growing Up in New Zealand” longitudinal study
- researching and reporting on family and whānau well-being
- gathering, analysing, and distributing evidence on family violence.
Improving social sector impacts

Using evidence effectively

The commission said that, overall, the public sector could improve its analysis and use of evidence. With the level of resources it has, the commission is not able to complete all the research and analysis of evidence for government agencies and non-government organisations (NGOs).

The commission sees its role as building capability within the sector. It considers that it can be most influential by connecting groups with evidence and building evidence into their decision-making processes. The commission is able to analyse and share more types of evidence than a single agency would usually access, including the findings of inquiries, reviews, conventions, randomised control trials, and data collected from studies and surveys.

We were pleased to hear that the commission’s analysis of the strength of evidence that informs policy and interventions is helping to drive change within the sector, from measuring departmental performance to measuring social impacts.

Improving connections between agencies

The commission said that connections between agencies need to be improved to maximise their benefit to society. The commission said that, too often, people in society have to make connections where agencies could have the infrastructure and systems to do this. For example, children with complex behavioural issues who transfer from one school to another are required to carry their own data and try to reconnect with services.

The commission said that improving agency connectedness will also help tackle complex and interrelated social issues, such as family violence.

We were pleased to hear that the commission is seeking to build good working relationships and share evidence between government agencies, NGOs, community organisations, and other groups in the social sector.

Integrated Data Infrastructure

We asked for an update on how the Integrated Data Infrastructure (IDI) was operating. The IDI is a large research database containing data about people and households from a range of government agencies, Statistics New Zealand surveys (including the 2013 Census), and NGOs.

This government initiative aims to increase the use of evidence to support social investment. Researchers can use the IDI to answer complex questions and inform policy to improve outcomes for New Zealanders.

We heard that there had been good engagement from agencies in submitting research to the IDI. Some agencies even use the IDI to store their own data.

The commission said that the database is well used but that the commission does not have information about who is accessing it. The commission intends to promote the IDI more when it finishes improving the search functionality of the database.
Growing Up in New Zealand

The commission manages the contract for the “Growing Up in New Zealand” study. This longitudinal study tracks a representative sample of New Zealand children as they progress from pre-birth to adulthood and collects data from a wide range of areas, such as health, economic circumstances, and family relationships. The commission recently re-contracted with the University of Auckland to collect data from the children as they turn eight years old.

Funding for the study has increased from the last financial year by $1.044 million, yet the number of participating children in the study reduced from 7,000 to 2,000. We were told that the number of participants had been reduced to make the study more affordable in the long term.

Although the commission acknowledged the effect on families who would be dropped from the study, it said that the original participants could act as a rich base for other government departments to survey. It also said that it preferred to reduce the number of participants now than have to cancel the study in the future for becoming too unaffordable.

The commission assured us that reducing the number of participants would not adversely affect the study’s results. It said that the number of participants was the same as in other similar studies and that it had sought advice on, and was pleased with, the sample sizes of people represented, such as Māori and Pacific peoples.

Some members are concerned about the ethics of dropping study participants who had signed up to this longitudinal study, and the possible implications of a much smaller sample size of Māori and Pacific peoples.

Off-benefit transitions

In February 2017, the commission published its report, “Off-benefit transitions: Where do people go?” The report examines the transitions of people who stopped receiving a benefit from July 2010 to June 2011.

We observed that this study period was before major changes to New Zealand’s welfare system. The commission told us that the study would provide a useful baseline for examining post-reform behaviour.

We asked whether or not the commission had been asked to commission research into the outcomes for beneficiaries post welfare reform in 2012. We were told that it could report on this period for a year, but had not yet been asked to.

We were told that the Ministry of Social Development is considering the next phase of the study.

LGBTI welfare

Youth mental health work has identified population groups whose needs are not being met, including young people from the LGBTI community. We asked the commission whether it was collecting data about, and advocating for, LGBTI people.

The commission said that none of its social surveys collects data specific to the LGBTI community. It said that it had not played a role in advocating for particular information.

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1 Lesbian, gay, bisexual, transsexual, transgender, intersex.
sources. However, it considers that this could be a natural progression of specific types of work it may do. We encourage the commission to remain responsive to the needs of various population groups.
Appendix

Committee procedure
We met on 15 February and 22 March 2017 to consider the annual review of the Families Commission. We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Families Commission, Response to pre-hearing questions, received 10 February 2017.
Families Commission, Response to post-hearing questions, received 15 March 2017.
2015/16 Annual review of Housing New Zealand Corporation

Report of the Social Services Committee

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Housing New Zealand Corporation

Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of Housing New Zealand Corporation and recommends that the House take note of its report.

Introduction

Housing New Zealand Corporation is New Zealand’s biggest residential landlord. In 2015/16, it managed about 64,400 properties (compared with 67,000 in 2014/15). It owned 61,600 of them (63,000 in 2014/15) and leased the others. About 182,000 people live in the corporation’s homes.¹

The corporation’s vision is “to be the social housing provider of choice”.

Its portfolio was valued at $22.6 billion as at 30 June 2016 ($20.9 billion at 30 June 2015). Forty-three percent of the corporation’s homes are in Auckland.

Total operating revenue in 2015/16 was $1.284 billion (compared with $1.205 billion in 2014/15). Total expenses were $1.098 billion (compared with $949 million in 2014/15). The resulting operating surplus was $134 million after tax ($163 million in 2014/15).²

The corporation is funded mainly through rental income from tenants and government rent subsidies.

New homes

The corporation built 871 new homes in 2015/16 (26 more than expected). It kept 732 of them for social housing, and 139 went to the private market. Of the 732 new social housing properties, 152 were on new sites and 580 were redevelopments, built on land that the corporation already owned. Thirty-six percent of the social housing was built in Auckland, and 54 percent was in Christchurch.

The Canterbury redevelopments were in response to the 2010 and 2011 earthquakes. The corporation said it has learnt some lessons that it can apply to the rest of its building programmes. These include making sure that homes are well designed, functional, warm and dry, and well built. It has learnt to standardise its processes where it can, to save time in building.

During the next three years (to 2018/19), the corporation plans to build 4,900 new homes, 3,900 of them in Auckland.³ Some of these will replace existing buildings that are at the end of their useful lives, are not the right size, or are on land that could house more people. We

¹ Housing New Zealand Corporation, Annual Report 2015/16, p 7.
³ At the hearing, the corporation incorrectly said that it planned to build 4,900 homes in Auckland. However, after the hearing, it clarified that 3,900 of the planned new houses were for Auckland (including replacements on existing corporation land).
heard that the building projects will give the corporation 1,400 more homes in Auckland than it currently has.

We urge the corporation to progress the Auckland buildings urgently.

We heard that the corporation plans to redevelop its properties at Northcote, Auckland. It has engaged its subsidiary, the Hobsonville Land Company, to replace 300 homes there with 1,200 new homes. Some of the new homes will be sold, and some will be retained for social housing.

The corporation said that, during the building programme, fewer homes are available for tenants to live in. This has resulted in a net decrease in homes available in the current (2016/17) financial year. We note, too, that project time frames change in response to delays in processes, such as consenting.

**Accessible homes**

The corporation said that it tries to match tenants with appropriate houses. When a tenant has accessibility needs, it finds an appropriate house or, if necessary, alters one to make it accessible. We are interested to know what the demand and average waiting times are for modified or accessible homes.

We heard that many of the corporation’s houses are reaching the end of their useful lives and will need to be replaced during the next 20 years. The corporation is working with the Ministry of Social Development to predict the needs of its tenants in the next 70 to 90 years. This will help make sure that homes are suitable for tenants.

**Methamphetamine**

In 2015/16, the occupancy rate of the corporation’s homes was 96 percent, slightly short of the 97 percent target. Thirty percent of long-term vacant homes were vacant because of methamphetamine contamination and remediation, compared to 8 percent in 2014/15.4

In 2015/16, the corporation spent $21 million testing homes for methamphetamine and decontaminating them. We heard that 37 tenants were given seven days’ notice to leave their homes because of antisocial behaviour. This included methamphetamine-related activity. In addition, 168 families were given 90 days to leave so that the homes could be decontaminated.

We heard that about 400 homes a year are affected by methamphetamine.

**Revised threshold for houses requiring remediation**

In 2016, there was some confusion about when a methamphetamine-contaminated house requires significant remedial work. The media reported that the Ministry of Health repeatedly told the corporation that guidelines for methamphetamine testing applied only to houses where it was manufactured.

The corporation said it takes the safety of its tenants, staff, and contractors very seriously, not wanting to expose them to potentially dangerous conditions. It used current Ministry of Health guidelines about safe levels of methamphetamine in houses. We heard that, contrary to news reports, these were the only standards available to landlords at the time.

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4 Housing New Zealand Corporation, Annual Report 2015/16, pp 14 –16.
We understand that the corporation spent $50,000 on a report finding that its methamphetamine contamination standard was unsound. Some of us are disappointed that, after receiving this report, the corporation continued using this standard.

The corporation said that it was able to re-let about 75 homes when the threshold was revised.

We understand that more than 400 properties that were originally considered contaminated by methamphetamine did not in fact need remediation. Some of us are concerned that these properties were not re-let as soon as possible.

**Disclosing whether methamphetamine has been used in a house**

We are aware that members of the public sometimes get annoyed when they see homes vacant, not realising that remedial work is needed before the homes are suitable to let.

The corporation does not publicise information about which houses are empty and why they are empty. However, it tries to repair them and make them available as quickly as possible. In 2015/16, the average vacant period was 38 days, against a target of 35 days.

**Testing all homes for methamphetamine**

We asked whether the corporation has considered testing all of its houses for methamphetamine before new tenants move in.

The corporation does not see the need to test 7,000 homes each year. This would slow down its re-tenanting process. It said it takes all reasonable steps to ensure that a house is safe.

It reminded us that most of its 64,000 tenants do not damage homes in this manner. Only about 400 homes a year require attention because of methamphetamine.

Staff and contractors are trained to identify visible signs of methamphetamine use when they visit homes. The corporation also works with other agencies to help it be aware of what is going on in its homes.

The corporation commented that this is also an issue for private-sector landlords and moteliers.

**Dividend**

In 2015/16, the dividend was $88 million lower than budgeted. The corporation paid $30 million to the Crown, compared with $108 million in 2014/15. The dividend was lower because of additional expenditure commitments arising from the transfer of properties to the Tamaki Redevelopment Company Limited.

In the current financial year, the corporation will not pay a dividend to the Crown. The corporation said that this had been decided during discussions between itself, the Treasury, and the relevant Ministers. The dividend will not be paid because of the scale of the investment programme that is under way.

Some of us consider that the social housing waiting list would not be as high as it is now if the corporation had focused on building more homes instead of paying a dividend to the Government in past years.
Appendix

Committee procedure
We met on 8 February and 22 March 2017 to consider the annual review of Housing New Zealand Corporation. We heard evidence from Housing New Zealand Corporation 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
Matt Doocy
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Housing New Zealand Corporation, Responses to pre-hearing questions 1–102, received 2 February 2017.

Housing New Zealand Corporation (presentation), received 7 February 2017.

Housing New Zealand Corporation (correction to hearing information), received 9 February 2017.

Housing New Zealand Corporation, Responses to post-hearing questions, received 16 March 2017.

Office of the Auditor-General, Briefing on Housing New Zealand Corporation, dated 8 February 2017.

2015/16 Annual review of the Ministry of Social Development

Report of the Social Services Committee

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Ministry of Social Development

Recommendation
The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of the Ministry of Social Development and recommends that the House take note of its report.

Introduction
The Ministry of Social Development provides social policy advice to the Government, and social services and assistance to people in the community. The ministry’s role in 2015/16 included:

- identifying, supporting, and protecting vulnerable children and young people
- reducing welfare dependence
- contributing to a fair, efficient social housing market
- building a social investment approach for the social sector
- improving the safety and security of staff and clients.

The ministry’s total revenue in 2015/16 was $1.488 billion (compared with $1.392 billion in 2014/15) and its expenditure was $1.449 billion (2014/15: $1.386 billion), leading to a surplus of $38.6 million (2014/15: $5.3 million).

As the administering department for Vote Social Development, the ministry oversaw the spending of almost $25 billion in 2015/16 (including benefit and superannuation payments).

Work and Income
More people asking for food grants
The ministry gave us information on the numbers of people receiving hardship payments for food in 2014, 2015, and 2016. On average, it made 376,883 such grants each year:

- 364,000 in 2014
- 369,000 in 2015
- 398,000 in 2016.

The ministry approved 14 percent more food grants in the last three months of 2016 than in the same period in 2015.

Most of the grants (83 percent) went to people receiving a main benefit, 10 percent went to those not receiving a main benefit but receiving supplementary assistance (such as the accommodation supplement), and 7 percent went to people not receiving any sort of benefit.
Effects of benefit increases

Many Work and Income benefits increased in April 2016, in a package worth $790 million in total. About 95,000 beneficiaries with dependent children received a rise of $25 per week. The Government’s childcare contribution increased for 15,000 families.

We heard that the $25 increase went to the families of more than 170,000 children. The ministry told us that the average net value to families receiving the increase was $23 per week. We asked what impact the increase to benefits had had on child poverty rates and officials told us that they did not have data providing conclusive evidence about this.

We were interested in learning how the package has affected people’s lives. However, more data is needed, and we were pleased to hear that the ministry has worked with Statistics New Zealand to include some child-specific questions in its next survey on poverty and hardship. We look forward to hearing about the information from that survey.

What happens after people stop receiving a benefit?

At 30 June 2016, 5,154 (1.8 percent) fewer people were receiving a main benefit than at 30 June 2015. This included 3,818 fewer people receiving Sole Parent Support.

The ministry told us about research into people who stop receiving a benefit. The study tracked 140,000 people for two years who stopped receiving a benefit in 2010/11 after receiving it for at least three months. We heard that, after two years:

- a third of the subjects were still working
- 25 percent were receiving a benefit again
- 15 percent had retired, moved overseas, or died
- 9 percent were studying
- 9 percent were financially supported in a relationship
- 1 percent were in prison.

The ministry does not know what happened to the other 9 percent (12,000 people). We heard that it assumes they had other means of support. Some of us are concerned that some people who go off benefits are not able to support themselves, yet do not receive any income.

Officials were asked for more up-to-date information about benefit outcomes given the legislative reforms implemented in 2012. We were told that this information had yet to be analysed although it is now available.

Accommodation supplement error

In 2014, the ministry identified a mistake in the amount of accommodation supplement that it was paying. Some recipients were underpaid, and some overpaid. The ministry said it would pay the difference to clients who had been underpaid, but it was not seeking to recover overpayments.

We heard that the ministry expected to spend $14 million remedying the underpayments. There are also the cost of the overpayments and administrative costs. In total,

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1 The research was contracted by the Social Policy Evaluation and Research Unit (Superu), and is published on its website at [http://superu.govt.nz/off-benefits](http://superu.govt.nz/off-benefits).
Accommodation Assistance expenditure was $23.1 million more than the amount budgeted in the 2015/16 Supplementary Estimates. The ministry has sought approval for the unappropriated expenditure under section 26C of the Public Finance Act 1989.

Fewer people receiving disability allowance

In light of information that the number of people receiving a child disability allowance had dropped by about a third, we asked the ministry how accessible the benefit system is.

The ministry said that the system is accessible. However, there are “clearly” some barriers, and some families may not receive as much help as the ministry would like.

It intends to analyse why uptake of the child disability allowance has dropped. We look forward to hearing more about the ministry’s work on barriers to the child disability allowance.

Investigating benefit fraud

In 2015/16, the ministry spent $36.412 million on minimising errors, fraud, and abuse of the benefit system and income-related rent. This included fraud prevention work. We were assured that there is no reward system for staff or contractors who uncover benefit fraud.

We asked about the approach to investigating fraud, with reference to a tragic case in 2011. In that case, a beneficiary committed suicide after receiving information about a fraud investigation into her benefit.

A review was conducted into the case, leading to changes in guidelines. Investigators must now take into account the kinds of stressful situations that people may be in. The ministry is confident that its processes are now more appropriate for vulnerable people.

Kaikōura earthquake response

We were pleased to hear that extra staff went to Kaikōura to help households and individuals after the November 2016 earthquake. An assistance package was set up for affected businesses there and in Wellington.

Staff safety

In September 2014, a gunman shot and killed two staff members and seriously injured another at the Ashburton Work and Income office. The ministry commissioned a security review that resulted in a Security Response Programme. The ministry pleaded guilty to failing to take all practicable steps to ensure the safety of its employees while at work—although it disputed some facts.

The ministry said that its controls at the Ashburton office were not good enough. This was also WorkSafe’s view and that of the court in the subsequent prosecution. However, the ministry said that the court viewed the violence as so extreme that appropriate controls might have not made a difference.

Some of us were interested in the culture in Work and Income New Zealand offices and the impact that this has on the safety of staff and clients. The ministry was asked whether any work had been done on cultural change in its offices to make them a more positive place as a way of mitigating the risk of heightened levels of stress and anxiety. We were told that this is a work in progress and something the ministry is very conscious of but recognises it does not always get this right.
The ministry is trialling new layouts in the Levin and Wellington Work and Income offices. Trained security guards assess people at the door for risk, before escorting them to a work station. Work stations are better designed, and there are safe zones for staff to move to if needed.

The ministry is also training staff to interact with clients in ways that could de-escalate tensions.

The ministry considers that it has been too tolerant of threatening behaviour from clients. We heard that it now has zero tolerance, referring all abusive or threatening behaviour to the Police.

We trust that improved controls will be successfully implemented in all the ministry’s offices.

**Vulnerable children and young people**

**Children in care**

We asked how the ministry tracks outcomes for children in State care. The ministry said that it makes a plan for every child coming into care, and it monitors and visits children while they are in care.

The ministry acknowledged that it needs to improve the long-term outcomes for children in State care. It is starting work on care models and national care standards to improve outcomes. We urge it, and the new Ministry for Vulnerable Children, Oranga Tamariki, to continue this work as a top priority.

**Children’s Teams**

Children’s Teams are being set up throughout the country to work with at-risk children and young people whose needs are (just) below the threshold of requiring statutory care and protection or youth justice. So far, there are 10 Children’s Teams. At 30 June 2016, almost 2,000 children had been accepted into teams.

Boundaries for the Canterbury and Whangarei teams are being expanded to match district health board boundaries. As a result, the ministry expects 300 more children to access the Canterbury team and 500 more to access the Whangarei team by the end of June 2017. Other boundaries will expand in the future. New teams will also be set up in future years.

The teams are not yet operating at full capacity. Although the smallest team, Marlborough, is at capacity, the larger teams are working with 60 or 70 percent of the originally estimated number of children. Others, such as Eastern Bay of Plenty, have had relatively few referrals so far.

Children’s Teams have been financed from within existing budgets in the health, education, and social services sectors. We asked whether a lack of funding could be a reason for the slower-than-expected growth in the teams. The ministry said that funding had not been a challenge so far but that it could be in the future. It expects that, when fully operational, the teams could deal with up to 20,000 children. This will probably require more resources.

**New ministry**

We heard from the chief executive designate for the new Ministry for Vulnerable Children, Oranga Tamariki. She started work in September 2016. The Ministry officially begins operating on 1 April 2017.
We are currently considering the Children, Young Persons, and Their Families (Oranga Tamariki) Legislation Bill, which proposes changes to the law that aim to support the operating model for the new ministry.

We heard that the intention is to transition slowly to the new ministry in a planned and deliberate way. The chief executive designate is aware of the need to stay focused on day-to-day services during the change. We were pleased to hear that, to help in this, additional capacity for six to nine months from December 2016 was being considered.

The chief executive designate observed that people in the community are already very willing to engage with the new ministry on things that it is not yet ready to engage on. She expects the new ministry to present some documents early in 2017 that will clarify some of the steps it will take, points of engagement, and design.

We heard that all staff from the Ministry of Social Development’s Child, Youth and Family unit below senior management level will transfer to the new ministry.

We asked the Ministry of Social Development whether it is worried that there were 112 vacancies in its Child, Youth and Family unit. It said that this is not an unusually high number of vacancies in a workforce of about 4,000.

**Youth justice**

We were interested in the reasons behind the proposal in the Children, Young Persons, and Their Families (Oranga Tamariki) Legislation Bill to increase the youth justice age to include 17-year-olds. We heard that international research has shown that outcomes for offenders going through the youth justice system are 15 percent better than for those going through the adult system.

New Zealand has four youth justice residences. The ministry noted that there is a “perceived” lack of beds and that alternative accommodation placements have been less than optimal.

It has worked to change some of the practices at residences. We heard that concerns were addressed at the highest level. Managements have changed, staff have received significant amounts of training, and facilities have been improved where possible. The ministry is discussing increasing the number of beds with the Minister.

The ministry said that it appreciates the feedback it receives from the Office of the Children’s Commissioner, which independently visits and monitors residences.

**Social housing**

Since taking over the tenancy review process for social housing in July 2014, the ministry has started more than 5,000 tenancy reviews. The ministry commented that a marker of success is for tenants to live in social housing for a short period of time before finding accommodation under their own auspices.

We heard that, at the end of 2016, there were 41 registered community housing providers. There were 26 at the end of 2015.

However, much of the ministry’s focus in the year under review was on emergency housing.
Emergency housing

In November 2016, the Government announced that it would spend an extra $303.6 million on emergency housing over five years, starting in 2016/17. The amount includes:

- building, buying, or leasing properties suitable for emergency housing ($120 million, $100 million of which will be as a loan to Housing New Zealand)
- rental subsidies ($71 million)
- for providers supporting, stabilising, and helping tenants into longer-term housing ($102 million)
- more dedicated frontline ministry staff ($10.4 million).

The ministry expects the extra funding to pay for 1,400 new emergency housing places, including 600 in Auckland. It expects clients to stay in emergency housing for 12 weeks on average and to receive further support for 12 weeks after they move into longer-term housing.

We heard that some small emergency housing providers would like mentoring from larger providers. Another thing to help small providers focus on supporting those in need is for the ministry to develop or re-purpose existing Crown property to make it available for emergency housing.

Social housing register

The ministry manages the social housing register. The ministry assesses a person’s needs, then tries to match them with a social housing provider who can home them.

We are aware that, in recent months, it has taken an average of 155 to 160 days to house a person who presents to Work and Income as homeless. The ministry said that this is because of the availability of homes. We heard that, if a home is not available in the person’s region, the ministry is “very limited as to what we can do”.

We heard about recent increased publicity about the ministry’s availability to help homeless people. The ministry said that this had led to more people approaching it with housing needs.

We were concerned to hear that some motels providing emergency accommodation were asking people to leave during the summer holiday period. The ministry did not view this as a widespread problem. It said it would work with providers to make alternative accommodation available. However, the ministry could not tell us how it would ensure that people were housed through the Christmas period.

The ministry said it negotiates with motels for the best prices. However, it said that prices are less important than people having a place to live.

Moving away from Auckland

In June 2016, the ministry introduced a $5,000 relocation assistance payment for applicants who are willing to relocate away from Auckland.

We heard that 150 people had used the payment by the beginning of December 2016. This was higher than expected. The ministry originally estimated that 150 grants would be made during the year to the end of June 2017. It now expects that 400 or 450 families may use the package by then.

We were told that most applicants were considering moving to the Waikato.
We learnt that, by 31 December 2016, five households had moved back to Auckland. Two of them will have to pay back the relocation assistance grant because they have returned to the social housing register. The other three have moved into private accommodation and will not have to repay the grant.

**Social bonds pilot**

We asked about the ministry’s role in the social bonds pilot. Social bonds are 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 will refund the investors their investment, plus a return.

We heard that the Ministry of Health is leading the development of social bonds. The Ministry of Social Development’s role has been to support the Ministry of Health. It has also been involved in the procurement process.

We were informed that Ministers are considering one social bond pilot involving the ministry. The pilot would focus on improving employment outcomes for people with mental health issues.

**Personal information collected by ministry contractors**

We asked about the protection of privacy for the information collected by the ministry and the organisations it contracts with. The ministry said it is working with the Privacy Commissioner and the Government Chief Privacy Officer to ensure that privacy is protected. It commented that data-sharing is important for making sure the right services get to the right people.

Some organisations have expressed concerns that people may not seek help because they know that certain data is collected from them. The ministry said that it disagrees. It does not believe that people would refuse help “simply because they’re asked to share the same information that they would with their doctor or their children’s school”.

The ministry said that it collects three different types of individual client information:

- demographic information
- information on dependents, including the date of birth of the youngest dependent
- service detail, including the programme or service name, start date, end date, and source of referral.

We heard that the ministry would provide reassurance about privacy to the public and to organisations if it saw a need to do so. However, the ministry could not explicitly state what the information would be used for although broadly told us it considers it needs this information to make sure that people are getting the right help, that the help is effective, and that it can be evaluated.
Appendix

Committee procedure
We met on 14 December 2016 and 8 March 2017 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
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

Ministry of Social Development, Response to pre-hearing questions, received 12 December 2016.

Ministry of Social Development, Response to post-hearing questions, received 16 February 2017.


2015/16 Annual review of the New Zealand Artificial Limb Service

Report of the Social Services Committee

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New Zealand Artificial Limb Service

Recommendation
The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of the New Zealand Artificial Limb Service and recommends that the House take note of its report.

Introduction
The New Zealand Artificial Limb Service is a Crown entity with the functions of:

- manufacturing, importing, exporting, marketing, distributing, supplying, fitting, repairing, and maintaining artificial limbs (and similar devices)
- providing rehabilitation and other services for amputees
- carrying out research and development into artificial limbs
- advising the Minister on matters about artificial limbs.

In 2015/16, the service supported 4,419 amputees, of whom 349 were new amputees. About 125 patients are under the age of 15.

The service has Limb Centres in Auckland, Hamilton, Wellington, Christchurch, and Dunedin. There are also regular clinics in several provincial centres.

District health boards (DHBs) provide bulk funding for patients whose amputation was caused by illness. These patients make up 62 percent of the total. Most new amputations in 2015/16 (57 percent) were caused by diabetes and vascular-related complications.

The other 38 percent of patients’ amputations were caused by injuries. The Accident Compensation Corporation (ACC) funds these patients.

Financial performance
Total revenue in 2015/16 was $10.548 million (8.5 percent more than 2014/15 revenue of $9.726 million). Expenditure was $11.977 million (compared with $9.952 million in 2014/15). The resulting deficit was $1.429 million, against a budgeted deficit of $1.114 million.

The service said that it is expecting another loss in 2016/17, of slightly more than $1 million.

Updated strategy
We heard that, during the last two years, the service has been revising its strategy. Its new vision is “independent and productive lives for amputees”.

There are four strategic themes:

- service: amputees are at the “centre of everything we do”
- expert workforce: responsive, continually improving services and outcomes for amputees
• technology, and research and development: providing the best technology solutions and initiative that budgets allow

• equity: supporting equitable access to technology and services, based on need.

The service aims to change the way it is perceived from “clinical” to “warm and empowering”. It also aims to broaden its services from just making limbs to include wrap-around care and technology. For example, health-funded patients often discuss returning to work only with Work and Income New Zealand. The service could include such discussions at an earlier point as part of a person’s rehabilitation strategy.

We heard that the service is moving towards including “value contributors” rather than only “funders” in its strategy. Value contributors include the amputee consumer movement, family/whānau, universities, and ACC and DHBs. We heard that, although users paying for their own services is not part of the current model and would be “difficult” to adopt, “user pays” would be considered a value contribution.

The service aspires to provide assistance to existing amputees as well as to those at risk of an amputation. It believes that more prevention services would help ease some of its financial pressure.

The service is seeking to make sure that amputees receive relevant ancillary services such as physiotherapy. It also wants to work better with other providers of services to amputees. We heard that, although this aspect is probably part of current ACC and DHB contracts, the funding for it is not clear.

We were told that socket fit is an overarching issue for most patients. They will not use a limb if the socket fits badly. The next issue is physiotherapy. We heard that plenty of physiotherapy improves outcomes for amputees. Managing both these issues helps to maximise the Crown’s return on investment in a limb.

**New structure**

We were interested to learn about the service’s new structure, which has been implemented to complement the new strategy.

Leadership positions were changed. For example, centre manager positions were replaced with regional managers to allow for a wider coordination of care. Human resources and chief financial officer positions were established.

We were told that the restructure cost about $300,000.

**Equity between ACC and DHB patients**

The strategy’s fourth theme, equity, relates to the differences in funding streams. ACC patients have individualised, insurance-based funding, whereas the DHBs bulk fund. Funding for DHB patients works out to $1,668 per amputee per year. This compares to an average of $3,026 per ACC patient.

We heard that part of the over-spend in 2015/16 was an extra $250,000 spent on microprocessor knees—which help amputees walk on uneven terrains—for DHB patients. This was funded from the service’s reserves. The service was very pleased with the outcomes for these patients.

The service has submitted a proposal to the DHBs for $1.5 million more funding each year.
We asked what would happen if the service does not receive this increase. The service said that, without the funding increase, it would not be able to collaborate as well with other providers and its assistance in ensuring a full range of services to amputees would slow down.

**Issues with buildings**

Limb Centres are leased from DHBs and the Ministry of Social Development. Rents are one dollar each year. However, the buildings are deteriorating and need substantial repairs and maintenance.

We heard that the service spent about $100,000 maintaining its properties in 2015/16. However, the buildings need about $5 million worth of repairs.

The service is negotiating with its landlords on funding the repairs. It is also preparing to negotiate with ACC about funding to cover property expenses.

**3D printing**

In 2015/16, the service collaborated with Victoria University of Wellington’s School of Design on projects involving 3D printing.

There are still some challenges with 3D printed limbs, and the technology is not yet ready to be implemented. However, we were pleased to hear that 3D technology is moving closer to reality.

We heard that 3D printers can cost close to $1 million but that current manufacturing methods are not expensive. Volumes would need to be high to justify purchasing a 3D printer. One option could be to collaborate with another entity and share use of the printer.

**High-performance athletes**

The service’s deputy chair, Paula Tesoriero, is also on the board of Paralympics New Zealand and was a television presenter for the Rio Paralympics.

We heard that the service has agreed to fund research by Paralympics New Zealand into the barriers against participating in sport.

Once it has sorted out its property issues, the service would like to investigate being physically near like-minded providers. It predicts that this could help it provide better “wrap-around” services—for example, to younger patients.

We note that Liam Malone, a healthcare patient who won gold medals at the Rio Paralympics, did his own fundraising to buy his running blades.
Appendix

Committee procedure
We met on 8 and 22 March 2017 to consider the annual review of the New Zealand Artificial Limb Service. We heard evidence from the service and received advice from the Office of the Auditor-General.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:

New Zealand Artificial Limb Service, Response to pre-hearing questions, received 6 March 2017.

New Zealand Artificial Limb Service, Response to post-hearing questions, received 17 March 2017.

2015/16 Annual review of the Social Workers Registration Board

Report of the Social Services Committee

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Social Workers Registration Board

Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of the Social Workers Registration Board and recommends that the House take note of its report.

Introduction

The Social Workers Registration Board is a Crown agency established by the Social Workers Registration Act 2003.

The Act provides a framework for the registration of social workers to ensure that they are competent and accountable for their practice, and that public safety is protected. In administering this framework the board is responsible for

- the registration of social workers
- setting the standards for social work education
- considering complaints about, and taking disciplinary actions against, social workers
- promoting the benefits of registration
- enhancing the professionalism of social workers.

The board is appointed by the Minister for Social Development. It employs seven full-time and three part-time staff members.

Financial performance

In 2015/16 the board’s income was $1.8 million, compared with $1.57 million in 2014/15. More than 95 percent was from the application, registration, and practising fees paid by social workers.

Total expenditure in 2015/16 was $2.01 million, 32 percent more than the previous year’s $1.52 million. This resulted in an after-tax deficit of $208,778, compared with surpluses of $48,187 in 2014/15 and $27,007 in 2013/14. The deficit was covered by the board’s accumulated funds.

Increase in complaints and disciplinary workload

We were told that the deficit arose mainly from an increase in the board’s complaints and disciplinary work. A substantial proportion of the costs were incurred in pursuing and holding to account registered social workers practising without valid competence assessment or annual practising certificates. The Act requires registered social workers to hold these certificates to show that they are fit to practise.

The chief executive explained that there was a “crackdown” on this issue in 2015/16. The board has always encouraged social workers to renew their annual practising certificates on time, but realised it would be breaching the Act if it did not also hold social workers to account when certificates were not renewed. Investigating the increased number of
complaints required the board to set up more complaints assessment committees and to employ additional staff.

We asked if the board anticipates further deficits. We were told that there was a “blip” in the complaints workload in 2015/16. At the time of our hearing in December, only five social workers were being followed up for practising without a valid certificate, compared with 100 or so pursued in the year under review.

The chief executive told us it is important that social workers are held accountable for their practice, and there will always be some cost associated with doing so. However, the board’s budget has been increased to accommodate these costs and additional staff are now in place to ensure that complaints are handled within the board’s means.

We understand that the board cannot predict the exact number of complaints about social workers likely to be received in a given year. The number will likely increase if registration becomes mandatory (as recommended in our inquiry report, discussed below), and as the board’s role continues to evolve from an application body to a regulatory authority.

We note the 48 percent increase in registered social workers, with 2015/16 seeing the highest number of new registrations in a single year since registration was introduced in 2004. We commend the board for its ongoing work in ensuring that registered social workers, of which there are now over 6,000, are fit to practise and that public safety is protected.

**Inquiry into the operation of the Act**

In 2016, as part of a wider ministerial review of the Act, the Minister for Social Development asked us to consider an issues paper that identified and discussed key issues with the current operation of the Act.

We carried out an inquiry, and in December 2016 we reported to the House. Our report made 38 recommendations to the Government, which included:

- making the registration of social workers mandatory
- phasing out social work registration on the basis of practical experience alone, so that, after a transitional period, all new social workers must have a qualification recognised by the board
- regularly assessing a social worker’s fitness to practise
- requiring notification to the board if social workers or employers have concerns, for example, about a social worker’s fitness to practise
- expanding the board’s options when dealing with concerns about a social worker
- making changes to complaints assessment committees and the Social Workers Complaints and Disciplinary Tribunal.

If taken up by the Government, the recommendations will have major implications for the way the board operates and for the social work sector. We intend to follow any developments in this area closely. We wish to acknowledge the assistance that the board and the Ministry of Social Development provided while we carried out our inquiry.
Appendix

Committee procedure
We met on 14 December 2016 and 8 March 2017 to consider the annual review of the Social Workers Registration Board. We heard evidence from the board, and we received advice from the Office of the Auditor-General and from the Office of the Clerk.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Social Workers Registration Board, response to pre-hearing questions, received 12 December 2016.

Social Workers Registration Board, response to post-hearing questions, received 9 February 2017.
2015/16 Annual review of Tāmaki Redevelopment Company Limited

Report of the Social Services Committee

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Recommendation

The Social Services Committee has conducted the annual review of the 2015/16 performance and current operations of Tāmaki Redevelopment Company Limited, and recommends that the House take note of its report.

Introduction

Tāmaki Redevelopment Company Limited was established in 2012 as an urban redevelopment company. It is a Crown company set up under Schedule 4A of the Public Finance Act 2004. Its shareholders are the Ministers of Finance and Housing (59 percent) and the Auckland Council (49 percent).

The company aims to transform Tāmaki into a safer and more vibrant place to live and work over the next 20–25 years. The Tāmaki area lies in southeast Auckland and comprises the suburbs of Glen Innes, Point England, and Panmure.

John Holyoake is the chief executive and the chair is John Robertson.

The company’s total revenue in 2015/16 was $19.582 million, up from $4.376 million the year before, and total expenditure was $30.622 million, up from $4.642 million in 2014/15.

The Auditor-General assessed the company’s financial information systems and controls as “needs improvement”. The Auditor-General noted that the company does not have an integrated Financial Information Management System, and recommended that it develop and implement such a system as soon as practical. We will continue to monitor developments in this space.

Transfer of social housing stock from Housing New Zealand

In April 2015 the Minister of Finance announced the transfer of 2,800 social houses to the company from Housing New Zealand as part of the Government’s Social Housing Reform Programme. He also announced a $200 million loan to the company, to build 7,500 additional houses in the Tāmaki area over the next 10 to 15 years.

The transfer took place on 1 April 2016, from which point the company has been responsible for the ownership and management of all former Housing New Zealand properties in the Tāmaki area. The Crown and the company have agreed business, social, and economic goals as part of the transfer process, and the company now has, or is developing, the capabilities to enable it to progress these goals. It said the transfer was seamless for tenants in the rental houses and that it was pleased with the process.

The company said that 2,500 of the 2,800 houses transferred will be demolished and replaced with the 7,500 homes announced by the Minister. The total number of social houses will remain unchanged, while the remainder of the homes will either be sold or kept as affordable rentals. The company aims to complete about 80 houses in 2016/17 and about 400 more in 2017/18.

Given the current shortage of social and emergency housing in Auckland, we asked whether the company had considered trying to better use vacant properties during the
development process. However, we were told that the properties are not up to the appropriate standard for temporary use. The company said that bringing them up to standard for such a short time would not be economical.

We were pleased to hear that some of the houses had been transported to other parts of the country for use there.

**Ngāti Paoa settlement**

A new Ngāti Paoa Treaty settlement area includes open space near the company’s properties. The company said it has a good relationship with the iwi. We heard that the Government had not approached it to discuss whether its properties could be part of the Ngāti Paoa settlement.

The company said that if the iwi wished to enter into a partnership with it at some point, it would be happy to entertain the opportunity.

**Affordable housing**

The company said that about 1,000 of the newly built homes are expected to be affordable. Rather than specifying a price point, it considers “affordable housing” to mean where no more than 30 percent of gross household income is spent on housing. It said that it also tries to align with KiwiSaver and Welcome Home Loan definitions.

The company expects that about a third of these affordable properties will be rentals. A third will be under shared ownership, and the rest will be small homes available for purchase.

We asked how the company decided on the ratio of 1,000 affordable houses out of the 7,500 total to be built. The company said it aims to accommodate a mixed community in Tāmaki. It also took account of population projections and residents’ likely incomes. It said it will continue to assess such factors yearly to understand the context it is working in.

**Rights of tenants**

The company said that tenants are not generally offered fixed-term tenancies. However, “in a few cases” they may be offered such tenancies so that old properties become available for development. It said that periodic (ongoing) tenancies are offered to tenants in new homes.

The company said this offers tenants the same security of tenure as expected from any other social housing landlord.

We heard that the company’s priority when rehousing tenants is to move them only once when possible.

**Need for large-scale developer**

The company is in the process of procuring a large-scale developer to construct 2,500 houses in Tāmaki.

The company said it received six bids that met requirements, which have since been reduced to two. Its request for proposal (RFP) is now being worked through by two consortia: one New Zealand-led, from Fletcher Construction, and one Australian-led, from AV Jennings. We heard that the successful bidder must show how it plans to work within the community to deliver on strategic priorities, such as creating employment, and must have a proven history of doing so. The RFP process will close in May 2017, and the
company said it expects the 2,500 houses to be constructed within about seven to eight years.

We discussed how the ownership of land will be managed during the development process. The company said it will clear land, then incrementally sell it to the developer at an indexed price. However, it will retain the right not to sell if the developer is not meeting agreed success criteria. Once the development is complete, the company intends to purchase the social housing stock back from the developer.

**Sustainability**

The company said it is trying hard to enhance the sustainability of the regeneration programme. We heard that an outcomes framework, designed to “bring all the parties around the table”, is at an early stage. It is intended to include government agencies, the community, and the Auckland Council. Part of its role will be to engage with the community, ask about their experiences, and respond appropriately.

The company intends to liaise with the Ministry of Education to ensure that education services, such as schools and early childhood centres, are available as the area grows.
Appendix

Committee procedure
We met on 8 February and 22 March 2017 to consider the annual review of Tāmaki Redevelopment Company Limited. We heard evidence from the company and received advice from the Office of the Auditor-General.

Committee members
Joanne Hayes (Chairperson)
Darroch Ball
Hon Jacqui Dean
Matt Doocey
Jan Logie
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Phil Twyford

Advice and evidence received
The documents that we received as advice and evidence for this annual review are available on the Parliament website, www.parliament.nz. They are listed below:


Tāmaki Redevelopment Company Limited, Response to post-hearing questions, received 2 March 2017.

Tāmaki Redevelopment Company Limited, Response to pre-hearing questions, received 2 February 2017.