APPENDIX TO THE JOURNALS
OF THE

House of Representatives
OF
NEW ZEALAND

2014–2017

VOL. 6

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
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Introduction

The Standing Orders provide for the financial scrutiny of Crown entities, State enterprises, organisations the House deems to be public organisations and non-listed companies partly-owned by the Crown. These procedures now apply to 120 organisations. This is a compendium of the select committee reports on the annual reviews for the reporting year of these organisations.

For the purposes of these annual reviews, a Crown entity is one named or described in Schedules 1 and 2 of the Crown Entities Act 2004 and a State enterprise is defined as in the State-Owned Enterprises Act 1986. On 21 October 2014, the House deemed the following public entities to be public organisations, and therefore subject to annual review: Abortion Supervisory Committee, Air New Zealand Limited, Genesis Energy Limited, Meridian Energy Limited, Mighty River Power Limited, and the Reserve Bank of New Zealand. These organisations were deemed public organisations for the purposes of the Standing Orders.

Consideration of reports by the House

The reports on the performance and current operations of Crown entities, public organisations, and State enterprises are not debatable when presented to the House. But for the 2013/14 financial year these reports will be considered as part of annual review debate.

Annual reviews of Government departments and Offices of Parliament

Select committees also conduct annual reviews of Government departments and Offices of Parliament. The reports of select committees on these examinations are published in a separate compendium (I.20A).
The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Abortion Supervisory Committee, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jacqui Dean
Chairperson
2013/14 Annual review of the Accident Compensation Corporation

Report of the Transport and Industrial Relations Committee

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Accident Compensation Corporation

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2013/14 performance and current operations of the Accident Compensation Corporation, and recommends that the House take note of its report.

Introduction

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

Financial performance

ACC’s income is from levies on employers, the self-employed, and earners; petrol tax and motor vehicle licensing fees; investment income; and Parliamentary appropriation. In 2013/14, ACC collected levies of $4.731 billion, slightly higher than the 2012/13 levy revenue of $4.714 billion. Its net investment income was $1.6 billion, compared with $2 billion in the previous year.

Its net surplus after tax was $2.1 billion, compared with $4.9 billion in 2012/13. The 2013/14 surplus reduced ACC’s unfunded liability, which had been $2.3 billion at 2012/13, to $108 million as at 30 June 2014. However, ACC said that in the current financial year, changes in the discount rate (at which future liabilities are discounted to present-day value) have meant that at the end of February 2015, its unfunded liability had increased to approximately $600 million.

Claims

There were 1.8 million new claims to ACC in 2013/14, a 4.7 percent increase from 2012/13. The percentage of the population who received compensation or rehabilitation services increased from 29 to 30 percent.

ACC told us that as the economic environment improves, the number of claims tends to rise. The increase is not just in work-related injuries, but in all areas, including sports injuries and other recreational injuries. ACC is trying to understand this trend better so that it can anticipate needs, by adjusting its staff numbers, for example.

Levies

In 2013/14, ACC recommended reducing levies. Levies were reduced on 1 April 2014, but not to the extent recommended by ACC. For the Work Account,¹ levies were reduced from $1.15 to $0.95 per $100 liable earnings. For the Earners’ Account,² levies were reduced from $1.48 to $1.26 per $100 liable earnings.

ACC considers itself conservative in its assumptions when recommending levies. It takes a long-term view, to give levy payers stability and certainty. When last setting levies, ACC

¹ Covers all work-related injuries (personal and gradual), diseases, and infections.
² Covers non-work injuries to earners.
tried to smooth the levies expected to be needed over five years. ACC said it has not yet decided on this year’s approach, but the board will consider whether five years is long enough, or whether ACC should take a longer view when setting levies, to reduce further the likelihood of sharp changes from year to year.

ACC was adamant that it was compliant with its governing legislation. The Labour Party members of the committee have concerns that ACC had not fully considered whether it was acting lawfully in collecting levies for the purpose of funding Crown surplus.

**Full funding**

Full funding means that an insurer can cover the future costs of people who need long-term support—not just their claims for the current year. The three accounts that are funded by levies have to be fully funded by 2019 and significant progress has been made with this in recent years. Full funding for ACC is 100 to 140 percent of the projected costs of long-term support, and we heard that at the end of December 2014, the Work Account was at 140 percent, the Earners’ Account was at 129.6 percent, and the Motor Vehicle Account was at 103.4 percent. It was commented that because of the public nature of ACC, the range for full funding is lower than a private-sector insurance company would seek, which would be closer to 200 percent.

We were informed that there are claims under the Work Account for harm resulting from long-term exposure, which can take many years before it presents and is claimed for. Asbestosis and noise-induced hearing loss are in this group of claims. Because of accounting standards that must be followed, ACC’s liability for these claims is not shown in the funding ratio of 140 percent; taking these claims into account, the Work Account is only 116.2 percent fully funded.

We note that funding ratios change considerably when discount rates change, in response to the market, and to local and global events. Discount rates fell in January; this added $4 billion to ACC’s forward liability. The funding ratio for the Work Account—excepting the gradual process claims—fell to 135.4 percent at the end of January 2015, and was at 141.1 percent at the end of February 2015. The Earners’ Account was at 121.5 percent at the end of January 2015, and at 128.1 percent at the end of February 2015.

**Injury prevention**

We note that one of ACC’s strategic intentions is to increase the effectiveness of injury prevention activities. ACC also shares the Government’s goal of reducing serious workplace injuries and fatalities by 25 percent by 2020.

Although ACC’s budget for injury prevention in 2013/14 was $40 million, it spent only $34 million.

ACC said it is not satisfied with its progress on injury prevention. We heard that in the next financial year, it hopes to invest on a scale comparable with the $48 million investment in 2008/09.

ACC is focused on getting value for money in injury prevention. We heard about ACC’s new approach to making sure injury prevention initiatives are effective. ACC evaluates each programme against four criteria: strategic fit, value, time needed to deliver benefits, and likelihood of successful delivery. It commented that there must be a return on its

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3 Covers all personal injuries involving vehicles on public roads.
investment in injury prevention; but returns in certain areas such as sexual and family violence are expected to emerge only in the long term. ACC believes the key to ensuring the success of its programmes is forming partnerships with other agencies for the long term.

**Correction to evidence given**

We have adopted the transcript of our hearing with ACC; and we note that the corrected transcript is accurate as at the time of the hearing. However, ACC has brought to our attention an inaccurate statement made during the hearing. At the bottom of page 10, a reference by Ms Rebstock to the residual component of the Work Account levy should have put it at 31 per 100 rather than 39 per 100.
Appendix

Committee procedure
We met on 4 and 9 December 2014, 12, 19, and 26 February, 12, 19, and 26 March, and 2 April 2015 to consider the annual review of the Accident Compensation Corporation. We heard evidence from the Accident Compensation Corporation and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Office of the Auditor-General, Briefing on the Accident Compensation Corporation, dated 12 March 2015.
Accident Compensation Corporation, Responses to pre-hearing questions, received 2 and 24 February 2015.
Accident Compensation Corporation, Responses to post-hearing questions, received 23 March 2015.
Accident Compensation Corporation, Addendum to transcript, received 25 March 2015.
2013/14 Annual review of AgResearch

Report of the Education and Science Committee

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AgResearch

Recommendation

The Education and Science Committee has conducted the annual review of the 2013/14 performance and current operations of AgResearch, and recommends that the House take note of its report.

Introduction

AgResearch was established as a Crown research institute (CRI) in 1992. It is the largest CRI in terms of assets and revenue, and the second largest by staff numbers. Its purpose is to enhance the value, productivity, and profitability of New Zealand’s pastoral, agri-food, and agri-technology sector value. In the year under review, AgResearch received total operating revenue of $160.758 million, including $38.889 million of core funding, complemented by contestable government funding and levy funding raised from agricultural businesses. It reported a net profit after tax of $2.005 million.

AgResearch works to advance scientific research in 18 service areas set out in its statement of intent. Progress in each of these areas is not measured annually, and it can be difficult to disaggregate AgResearch’s contribution where research is carried out in collaboration with business or tertiary institutions. Research highlights of the period under review included successful efforts to combat clover root weevil; mitigating the damage caused by black beetle infestation; work on sheep milking; and the development of wool running shoes. We also congratulated AgResearch staff on their publication of two papers in the highly regarded scholarly journal Nature.

AgResearch is in the midst of a major restructuring that involves significant redeployment of scientific staff and infrastructure from its Ruakura and Invermay campuses to Massey and Lincoln.

CRI core funding

We heard that almost 25 percent of AgResearch’s income is core CRI funding. In the last year, $3 million of this was allocated equally to three strategic areas: high-value foods; food safety; and future farm systems (with a focus on production and environmental impact.) We were told that New Zealand universities are producing too few graduates with expertise in farm systems. AgResearch hopes to use its proposed research hubs at Lincoln and Palmerston North to develop closer relations with universities. A survey conducted by the Ministry for Primary Industries in conjunction with Dairy NZ and Meat and Lamb NZ suggested that the agricultural sector had the potential to grow by more than 50,000 jobs.

We heard that core funding allows flexibility and responsiveness. The swift deployment of AgResearch’s core funding in February 2014 to combat a clover root weevil outbreak in Otago and Southland, for example, yielded a $52-million benefit to the economy. We heard that AgResearch also uses core funding to stimulate private investment in research and development. An investment promotion strategy expected to yield results within one or two years had already attracted $500,000 in new business investment.
Future Footprint

AgResearch has operated on five campuses and 13 farms nationwide since its inception in 2002. Its infrastructure was underutilised, high overheads making profitability hard to achieve. Internationally, science was moving towards collaboration and co-location, to achieve economies of scale in equipment. Innovation hubs have emerged, with business at their centre to ensure that scientific research is relevant.

AgResearch’s Future Footprint business case reflects the international trend towards research hubs and clusters. AgResearch has made a case for two large hubs, one in Palmerston North, the other at Lincoln. Lincoln’s hub would include two universities, CRIs, and agricultural businesses. We heard that the proposal had wide industry support and businesses were already expressing interest in taking research space on campus.

We asked about the Auditor-General’s assessment of issues regarding AgResearch’s planned restructure and Future Footprint plan. We noted that the Auditor-General decided against further scrutiny of potential conflict of interest in the proposal. Her report recommended an updated Future Footprint business case with more detail to bridge developments since 2012 and inform final decision-making about the required capital investment. The Auditor-General investigated the cost and benefits of the restructure and concluded that the October 2012 business case was sufficient to support decisions to move to the next stages of Future Footprint planning.

AgResearch said it stood by the way the business case was drafted, but said that thinking had evolved since 2012 when it was prepared. An extensive building programme planned at Lincoln to accommodate the hub was to an extent overtaken by the Crown’s decision to rebuild facilities in Lincoln, obviating the need for AgResearch to do so. An updated business case would be prepared by the board by 30 June, and made available for publication. The board is seeking guidance from Treasury on the likely return for investment on the $100-million cost of the planned restructure. Some of us note that staff surveys indicate AgResearch’s Future Footprint plan has had a significant impact on staff morale and with a potential loss of scientific staff and capability. We take a close interest in ensuring that valuable expertise and customer relationships are not lost in this transition.

Staffing

We heard that staff turnover at AgResearch remains within the normal range at less than 10 percent, and had fallen in the last two years. Some departing staff had given the restructure as the reason for leaving. We remarked on the large number of resignations from AgResearch’s $30-million-a-year sheep genetics and genomics programme at Invermay, and heard that its senior scientists remained. Changes in the animal science sector reflected business needs, which currently did not prioritise it highly.

Citing PSA surveys, we noted that only 1 percent of Invermay staff wanted to move from the current site; and a sector survey conducted by ram breeders indicated that 90 percent of them thought restructure should not go ahead. AgResearch questioned the methodology and results of the survey in question, arguing that broad industry consultation had elicited wide support for amalgamation into the proposed hubs. It said most sector groups intended to partner with AgResearch on one or more of the campuses.

We noted that according to surveys of AgResearch staff engagement, confidence in the organisation’s leadership abruptly fell over two years to just 39 percent. AgResearch acknowledged that low morale had been further impaired by redundancies following
several failed bids for contestable funding. The board is aware that job security and funding are a huge issue for staff; this is particularly true of the animal science sector.

**Ruakura**

Ruakura is AgResearch's largest campus. We asked about plans for the eventual subdivision of land at Ruakura that is leased by AgResearch, including what provision was made to ensure that the land was free of any effluent or other trace of genetic engineering. We heard that AgResearch works closely with Tainui, the owners of the land, to ensure that the animal containment unit complies with rigorous guidelines. Animal science research was carried out in conjunction with the University of Auckland, and was a longer-term “deep science, blue sky” project without a fixed end point.

**Conflicts of interest**

We were assured that members were scrupulous in declaring their interests and absenting themselves for agenda items where a conflict of interest was likely to arise. This was true of all aspects of the Future Footprint business case. The board intended to improve by annotating its minutes to reflect precisely the points at which board members left the room to avoid conflicts of interest. We noted that the Minister had not been informed of any conflicts of interest. We heard that the Auditor-General’s report had acknowledged the difficulty of removing all possible conflicts of interest in what was a small pool of technical expertise.

**Engagement with Māori**

We heard that AgResearch is putting a lot of effort into deepening its engagement with Māori. Staff are educated on Māori protocol, and the board has invited Māori leaders to address it on how best to boost engagement. Ngāti Apa had recently purchased the Flock House farm from AgResearch, and AgResearch works closely with Tainui on the animal research under way at Ruakura. AgResearch has recently signed a memorandum of understanding with Te Tumu Paeroa, establishing a new relationship intended to boost the performance of Māori-owned agricultural land. AgResearch has a decade-long relationship with Māori-owned dairy company Miraka.

**Gender balance**

We heard that although the leadership team and board are currently male-dominated, this was evolving. The two most recent leadership recruits at AgResearch are women. Like many organisations, AgResearch has a demographic “hole in the middle”: a largely male cohort of fifty-somethings due to retire in 10–15 years; and a younger cohort of those under 30, among whom the gender balance was a lot more even. In a bid to encourage female staff to step up for leadership roles, the board allowed selected female staff to sit in on meetings as non-voting attendees. We were assured that remuneration policy is transparent and gender-neutral.

**Environmental impacts**

We asked about the tension between business-led commercial scientific research and science that contributed to the public good, particularly in the context of environmental issues. AgResearch said its work is driven by its end-users and next-users, whether companies, industry groups, or farmers whose practice ranged from deeply intensive to purely organic. We queried the rationale for work helping PGG Wrightson to develop intellectual property around seeds that become dominant and require at least three
herbicide/pesticide applications. We were advised that AgResearch’s genetic modification programme is very small, while extensive focus is given to developing diverse pasture systems in order to boost ecosystem sustainability and avoid the risk of developing monocultures. Some of us note the importance of investing more in research that enhances the sustainability and resilience of our primary sector in the face of inevitable climate change, including agri-ecological systems.

**Research portfolio**

We raised concern that AgResearch’s move away from animal science could be read as giving the dairy sector disproportionate weight in New Zealand’s agricultural sector. We suggested the importance of balancing the Government’s target of growing exports to 40 percent of GDP by 2025 against the risk of over-dependence on dairy and on the Chinese market. We heard that while AgResearch’s 18 key priorities covered the full spectrum of New Zealand’s diversified agricultural sector, AgResearch’s work programme is to a certain extent driven by the levy funding raised from the business sector. Beef and Lamb New Zealand—whose members own a significant proportion of New Zealand’s farm land—are going to a levy this year which AgResearch hopes will lead to research of value to this sector.

**Fonterra botulism scare**

We heard that in response to criticism in the ministerial review of the informal level of communication and cooperation between Fonterra scientists and their AgResearch colleagues, new second-tier checks and balances at management level are now in place. We heard that AgResearch conducts very little food safety testing and none is currently under way.
Appendix

Committee procedure
We met on 18 March and 1 April 2015 to consider the annual review of AgResearch. We heard evidence from AgResearch and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
Office of the Auditor-General, Briefing on AgResearch, dated 16 March 2015.
Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
AgResearch, Response to written questions, received 4 February and 26 March 2015.
The Finance and Expenditure Committee has conducted the annual reviews of the 2013/14 performance and current operations of Air New Zealand Limited, Crown Asset Management Limited, the Electricity Corporation of New Zealand Limited, Genesis Power Limited, Kordia Group Limited, Meridian Energy Limited, the Meteorological Service of New Zealand Limited, Mighty River Power Limited, New Zealand Post Limited, the Office of the Controller and Auditor-General, and Southern Response Earthquake Services Limited, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

David Bennett
Chairperson
2013/14 Annual review of the Airways Corporation of New Zealand Limited, the Civil Aviation Authority of New Zealand, FairWay Resolution Limited, Maritime New Zealand, and the Transport Accident Investigation Commission

Report of the Transport and Industrial Relations Committee

The Transport and Industrial Relations Committee has conducted the annual review of the 2013/14 performance and current operations of the Airways Corporation of New Zealand Limited, the Civil Aviation Authority of New Zealand, FairWay Resolution Limited, Maritime New Zealand, and the Transport Accident Investigation Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Jonathan Young
Chairperson
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Animal Control Products Limited

Recommendation

The Primary Production Committee has conducted the annual review of the 2013/14 performance and current operations of Animal Control Products Limited, and recommends that the House take note of its report.

Introduction

Animal Control Products is a State enterprise. It is a pest management company which derives around half of its revenue from the manufacture of 1080 poison products, of which it is the largest manufacturer in New Zealand. William McCook is the newly appointed chief executive.

In 2013/14 Animal Control Products recorded a net profit after tax of $1.3 million, a significant increase from $393,947 the previous year.

Diversification

We asked whether Animal Control Products would remain economically viable if 1080 was no longer used for pest management in New Zealand. Animal Control Products assured us that it had diversified a substantial proportion of its business into retail products, for example for rat control. Animal Control Products produces 32 different toxins for managing various pests, and also non-toxic pre-feed baits. However, a sudden moratorium on the use of 1080 would require major cost cuts and changes to the business. We note that Animal Control Products does not produce traps, but that it has sold them previously and is considering stocking them again.

Animal Control Products said it was aware that it would need to continue exploring pest management tools that did not require the use of 1080. We heard that 1080 was still regarded as one of the most effective means of killing multiple species of pest, such as rats and possums, with an almost absolute success rate, whereas alternative toxins deliver 80 percent kills of possums only. Animal Control Products acknowledged extensive social concern about the use of 1080.

Research and development

We were interested in the research and development Animal Control Products undertakes, and how it is funded. Animal Control Products said that it receives no external funding for research and development. Most research and development is completed in-house, and largely focuses on diversifying and improving the bait. We were told that improvements were not driven by opposition to the use of 1080 but rather a desire to deliver better results for customers. Animal Control Products is also exploring the possibility of including a sedative to put possums to sleep whilst they die, making 1080 poisoning more humane. We noted, however, that this was likely to take a long time to develop. Some Opposition members of the committee remain sceptical that opposition to the use of 1080 is not a factor.
Protecting native birds
We asked about the risk of 1080 to Kea. Animal Control Products said that the company’s products are developed to protect native birds generally, but unfortunately this species has a large claw which enables it to pick up and chew 1080 baits. However, Animal Control Products considers its products are protecting more Kea than are being harmed, and cited evidence that the nesting success rates of Kea in areas where there have been 1080 aerial drops are much higher than elsewhere. Animal Control Products is aware that a bait repellent has been developed for Kea, but it is too volatile to be used effectively and requires further development.

Appointment of chief executive
We asked whether Animal Control Products considered the possible perception of the appointment of William McCook. Mr McCook was the previous chief executive of OSPRI New Zealand, a major pest management company. We suggested that his appointment might be viewed poorly by opponents of 1080. Animal Control Products said that the appointment had been considered carefully, but ultimately Mr McCook possessed the required skills and experience, and that the board also considered he would improve collaboration within the industry.

Competition
We understand that a competitor company was recently established to supply 1080 in New Zealand. We were told that at present anyone can set up a factory to produce 1080; however, Animal Control Products considers that the process should be subject to greater scrutiny, including consultation with regulators and industry, because of its potential implications for quality and safety. We remarked that the price of 1080 is high, presenting an opportunity for competitors. Animal Control Products said that it was until recently a monopoly supplier, but the profit margin on 1080 is the lowest of all its products.

TB control
We asked about Animal Control Product’s role in the bovine tuberculosis eradication programme. Animal Control Products said it is merely an interested observer and not directly involved in the programme, although it supplies the toxins used. Animal Control Products acknowledged the potential risk to its profitability from any changes to regional council funding for TB control. The company considers it has very little ability to mitigate this risk apart from cutting its costs. We noted that the national strategy for TB control is currently under review and the current programme is funded until 30 June 2015.
Appendix

Committee procedure
We met on 26 February and 26 March 2015 to consider the annual review of Animal Control Products Limited. We heard evidence from Animal Control Products 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
Meka Whaitiri

Evidence and advice received

Animal Control Products Limited, responses to written questions, received 10 February and 19 March 2015.

2013/14 Annual review of the Arts Council of New Zealand Toi Aotearoa, Drug Free Sport New Zealand, Heritage New Zealand Pouhere Taonga, the New Zealand Film Commission, the New Zealand Fire Service Commission, the Office of Film and Literature Classification, and Sport New Zealand

Report of the Government Administration Committee

The Government Administration Committee has conducted the annual reviews of the 2013/14 performance and current operations of the Arts Council of New Zealand Toi Aotearoa, Drug Free Sport New Zealand, Heritage New Zealand Pouhere Taonga, the New Zealand Film Commission, the New Zealand Fire Service Commission, the Office of Film and Literature Classification, and Sport New Zealand, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2013/14 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 2013/14 performance and current operations of AsureQuality Limited and recommends that the House take note of its report.

Introduction

AsureQuality, a State enterprise, is a quality assurance company with eight subsidiaries. It provides food safety and biosecurity services to the food and primary production sectors. AsureQuality’s work is in four main areas: food and contaminants testing, diagnostics, biosecurity, and audit, inspection and training. Its sole shareholder is the Crown.

Financial performance

AsureQuality’s total revenue for the 2013/14 year was $173 million. Its profit for the year was $12.5 million.

Organisation objectives

We are concerned that AsureQuality no longer seems to prioritise the objective of protecting and enhancing New Zealand’s reputation as a food exporter, although this was one of the main reasons for merging ASURE New Zealand Limited and AgriQuality Limited to create AsureQuality. We expressed concern that this may mean that AsureQuality’s expertise is operating primarily in the interests of the reputation of its overseas customers.

AsureQuality said it thinks it protects New Zealand’s exporters by maintaining a good international reputation, and an overseas presence. AsureQuality considers that its international experience adds value for New Zealand’s food exporters, for example by equipping it to provide information about other markets. AsureQuality agreed with us that it needs to strike a balance between generating international revenue and its core of work in New Zealand.

Workforce

We heard that AsureQuality has seen the demand for its services increase, and predicts that this trend will continue. AsureQuality understands that to maintain its status as a global expert in food safety and quality it will need to ensure that it has the necessary capacity and its workforce is capable. Roles such as auditor or inspector require technical expertise as well as oversight from experienced staff.

AsureQuality would like to be an attractive employer with world-class training and development. It recognised that its professional development of staff was good in some areas but uneven. AsureQuality sees the turnover as its workforce ages as an opportunity to improve the balance between technical knowledge and experience.
Training

We heard that AsureQuality often works with the Ministry for Primary Industries and Operational Solutions for Primary Industries on farm inspections. They see their role in these inspections as an educational one as well.

The AsureQuality Academy is a new initiative to provide ongoing training for inspectors and auditors. AsureQuality also considers that the academy provides an opportunity to engender and replicate a desirable culture throughout the organisation, particularly overseas. The board has encouraged the management to see people as a capital expenditure rather than a mechanical asset.

Cost-effective services

We were concerned that some work undertaken by AsureQuality may not be as cost effective as it should be for customers. For example, we were told of an operator in Northland who had to pay for someone to come from Wellington to certify them when an agent was already in Northland. AsureQuality said that they consider, and their processes generally make sure, that their work is cost effective for customers.

AsureQuality is a recognised agent for the Ministry for Primary Industries for certifying small-scale operations. The Ministry for Primary Industries sets the regulations against which AsureQuality audits clients. AsureQuality is represented in the working groups that draw up the regulations, but it is responsible to the Ministry for Primary Industries. We note that the Food Act 2014 includes a principle of reducing costs to small operators. We remain concerned that AsureQuality might not be doing all it can to adhere to this principle. We urge AsureQuality to monitor the efficiency of their processes closely, to ensure that compliance costs are not forcing smaller operators out of the market.
Appendix

Committee procedure
We met on 19 February and 19 March 2015 to consider the annual review of AsureQuality Limited. We heard evidence from AsureQuality 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
Meka Whaitiri

Evidence and advice received
AsureQuality Limited, responses to written questions, received 5 February and 2 March 2015.
Organisation briefing paper, prepared by committee staff, dated 16 February 2015.
The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Auckland District Health Board, the Bay of Plenty District Health Board, the Canterbury District Health Board, the Counties Manukau District Health Board, and the Hawke's Bay District Health Board.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Simon O’Connor
Chairperson
2013/14 Annual review of the Broadcasting Commission

Report of the Commerce Committee

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Broadcasting Commission

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Broadcasting Commission, and recommends that the House take note of its report.

Introduction

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

In 2013/14 the commission received a total income of $130.853 million, and its total expenditure for the period was $130.253 million. This resulted in a net surplus of $600,000 (compared with a deficit of $349,000 in 2012/13).

Financial performance

The Broadcasting Commission achieved a surplus of $600,000 in 2013/14 against a budgeted $909,000 deficit. We asked how it achieved this, considering that it has been working under financial constraints, and heard that it was largely for accounting purposes. Money had been budgeted for long-term projects that were never completed, so the money committed had not been fully utilised. This money has now been written back, creating a surplus; it will be held as reserves for future needs.

We also asked why the commission did not reach its target for broadcast television drama, and heard that because TV3 had just come out of receivership, it did not have a planned series ready to air. Instead, the commission funded three tele-features for other channels, which are more expensive to make and fill fewer television hours. We heard that the tele-features proved popular.

Programming for ethnic audiences

We asked about the commission’s strategy for supporting programming for ethnic communities, and we were told that radio is the best medium for this purpose. The commission funds Access Radio stations, which broadcast in 40 languages. It also supports television series that depict New Zealanders from diverse ethnic backgrounds; and it is reviewing its regional television policy with a view to serving the community.

The production of television programmes Tagata Pasifika and Fresh has been outsourced to independent production houses, but will be funded by the commission. This initiative will count towards reaching the commission’s targets for Māori and Pasifika content on television. The commission will monitor these shows closely in the first year of the transition.
Funding decisions

Some of the television programmes that the commission has funded in the year under review have been commercial in character, or have been controversial, which we consider could affect the commission’s reputation, and perceptions about the use of taxpayers’ money. We questioned these funding decisions, and heard that in every case, the commission analysed the business case carefully, and funded only shows that would not otherwise have gone to air. We heard that the commission’s statute prevents it from any involvement in the editorial content of the projects it funds.
Appendix

Approach to this annual review

We met on 26 February and 19 March 2015 to consider the annual review of the Broadcasting Commission. We heard evidence from the Broadcasting Commission and received advice from the Office of the Auditor-General. The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Broadcasting Commission, Responses to written questions 1–127, received 5 February 2015.
Broadcasting Commission, Responses to written questions 128–138, received 3 March 2015.
Office of the Auditor-General, Briefing on the Broadcasting Commission, received 24 February 2015.
Organisation briefing paper, prepared by committee staff, received 24 February 2015.
2013/14 Annual review of the Broadcasting Standards Authority, the External Reporting Board, the Government Superannuation Fund Authority, the New Zealand Productivity Commission, the New Zealand Venture Investment Fund Limited, Public Trust, the Real Estate Agents Authority, the Retirement Commissioner, the Takeovers Panel, and the Testing Laboratory Registration Council

Report of the Commerce Committee

The Commerce Committee has conducted the annual reviews of the 2013/14 performance and current operations of the Broadcasting Standards Authority, the External Reporting Board, the Government Superannuation Fund Authority, the New Zealand Productivity Commission, the New Zealand Venture Investment Fund Limited, Public Trust, the Real Estate Agents Authority, the Retirement Commissioner, the Takeovers Panel, and the Testing Laboratory Registration Council, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Melissa Lee
Chairperson
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Callaghan Innovation

**Recommendation**

The Education and Science Committee has conducted the annual review of the 2013/14 performance and current operations of Callaghan Innovation, and recommends that the House take note of its report.

**Introduction**

Callaghan Innovation was created as an advanced technology institute on 1 February 2013. It is a Crown agent which operates under the Callaghan Innovation Act 2012, and the Crown Entities Act 2004. Its mission is to accelerate the commercialisation of innovation by businesses in New Zealand. The majority of the businesses Callaghan Innovation works with comprise fewer than 20 employees. Callaghan Innovation seeks to improve the innovation performance of these small and medium-sized enterprises, thus contributing to productivity gains and economic growth. Callaghan Innovation provides businesses with the services that help a company go from having an idea for a product to getting it ready to sell. Callaghan Innovation has the target of assisting business research and development (R&D) investment to reach 1 percent of GDP by 2025; in the year under review the proportion was 0.58 percent. New Zealand’s low rate of business investment—in the bottom quartile of the OECD—is a key constraint on achieving this target. We heard that Callaghan Innovation’s strategic approach to this goal will be addressed in its forthcoming statement of intent, which will also include ways to measure the organisation’s success against its targets. We note that it is nearly three years since the creation of Callaghan Innovation, and given the importance of increasing the rate of business R&D, we await their strategy and statement of intent.

Callaghan Innovation’s total revenue and other income for 2013/14 was $203,347 million. This includes $108,871 million for R&D grants which it administers, and $14,534 million from commercial revenue. It had an operating surplus of $8,388 million. Its overall surplus for the period was $965,000. In the two years since its launch, Callaghan Innovation has carried out 967 R&D projects for 308 different businesses; it has approved 1,477 R&D grants for 944 businesses, placed 717 students in 288 businesses, and assisted 113 companies with innovation engagement plans for their product development strategy and company growth.

**Export income as proportion of GDP**

We noted the Government’s target of raising exports as a percentage of GDP from 30 percent to 40 percent by 2025, and Callaghan Innovation’s role at the operational end of delivering this target. We asked what three things Callaghan Innovation would change if it could, to move New Zealand closer to the 40 percent target. We heard that Callaghan Innovation is still in its early days, and that while it had experienced some frustration in resolving legacy issues around governance, it was now in a position to move forward. We were encouraged to “watch this space”. We will closely monitor the pace of its strategy development now that it has completed its initial set-up phase.
Grant funding criteria
We heard that Callaghan Innovation’s R&D grants are non-discretionary; any company that has spent more than $300,000 on R&D in the past two years; is spending 1.5 percent or more of their sales revenue on R&D; and is doing work that qualifies as R&D according to international accounting standards can expect to qualify for Callaghan Innovation R&D funding. If demand for grants exceeds supply, Callaghan Innovation consults the Ministry of Business, Innovation and Employment for policy advice in support of its decision making process.

Trends Publishing International
We asked why Callaghan Innovatioin had made a grant to magazine publisher Trends Publishing International, and why the grant was subsequently referred to the Serious Fraud Office. We were informed that firms awarded grants by Callaghan receive funding in progressive tranches. Concerns about the legitimacy of some of Trends’ claims against the approved R&D funding led to an internal investigation, followed by an independent audit and referral to the Serious Fraud Office.

Chatham Rock Phosphate
We asked why Chatham Rock Phosphate was awarded funding for the development of mining technologies before the company had received resource consent for mining rock phosphate on the Chatham Rise. We noted that this decision had been depicted by Chatham Rock Phosphate’s managing director as a vote of confidence from the Government in their project. We were advised that this grant was made under transition arrangements, an understanding extended to companies unable to point to a past multi-year track record. No money was paid out to Chatham Rock Phosphate, because funding is only received once resource permission has been gained.

Trans-Tasman
When asked why Callaghan Innovation had approved funding of $15 million in the form of a growth grant for seabed mining which also failed to achieve resource consent, Callaghan Innovation noted that in fact Trans-Tasman’s R&D expenditure was $630,000 before the project’s failure to win resource consent brought it to an end. We were advised that the activity met R&D criteria, irrespective of progress on the mining project for which it was destined. We questioned whether providing funding to extractive industries seeking to dig up the seabed was in sympathy with the wishes of the institute’s founder. We heard that Callaghan Innovation supports technologies that create products and services that are in line with both New Zealand’s policy context and sound commercial ethics.

The examples above raise two sets of issues for some of us; first, the policy question of whether grant-making should be automatic once certain basic criteria are met, or whether a more discretionary approach might make better use of resources. We note Callaghan Innovation’s indication that these criteria may be subject to further review. Secondly, a number of operational issues arise, including the need to manage transnational company acquisitions, the transparency of applicants’ information, and the relevance of their research, in a way that makes the best use of available resources.

Unmanned Aerial Vehicles
We heard that Unmanned Arial Vehicles (UAVs) are an exciting emerging industry and one where New Zealand companies and entrepreneurs are at the forefront of the sector
internationally. New Zealand is well suited to the two major applications of drones: UAVs for agricultural use, with potential as a precision delivery device for fertiliser; and UAVs for use by the film and TV sector. New Zealand’s expertise in both fields provided a strong intersection with the electromechanical expertise and ICT technologies that are required in UAVs. New Zealand was equally in a position to show global leadership in developing a strong regulatory structure around the use of drones.

**Gender balance**

We are aware that 70 percent of Callaghan Innovation’s staff are male. We heard that Callaghan Innovation does not have a specific work stream dedicated to improving its inhouse gender balance, but was conscious of the need to avoid unintended bias and the importance of ensuring women continue to be well represented in the organisation’s executive team, where women hold three of the seven positions. Callaghan Innovation works closely with women’s professional networks and in outreach to young women planning their careers, particularly in science and technology sectors.

**Grants to companies with an overseas parent**

We asked how Callaghan Innovation treats funding proposals from New Zealand companies with an overseas parent, or a New Zealand company that is subsequently sold to a foreign buyer. We heard that Callaghan R&D grants include a “claw-back” provision, and case-by-case tests are carried out to determine whether the benefit of R&D grant funding would remain in New Zealand.

Callaghan Innovation approved a grant to Bayer New Zealand, a subsidiary of the German parent group Bayer, which declared a tax loss in New Zealand. Some of us expressed concern at the idea of making taxpayer-funded grants to subsidiaries of entities that were structured in such a way as to minimise their New Zealand tax liability. We heard that the international taxation structure of parent companies operating New Zealand-based subsidiaries was not taken into account when such companies applied for funding. We will continue to follow with interest work Callaghan Innovation will do to monitor and ensure grant eligibility criteria, co-funding rules, the size of grants, probity, and the measurement of the return to innovation performance will continue to contribute to lifting R&D spending in New Zealand.
Appendix

Committee procedure
We met on 11 March and 1 April 2015 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)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
Office of the Auditor-General, Briefing on Callaghan Innovation, dated 6 March 2015.
Organisation briefing paper, prepared by committee staff, dated 5 March 2015.
Callaghan Innovation, Response to written questions, received 3 February and 23 March 2015.
2013/14 Annual reviews of the Capital and Coast District Health Board, Hutt Valley District Health Board, and the Wairarapa District Health Board

Report of the Health Committee

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Recommendation

The Health Committee has conducted the annual reviews of the 2013/14 performance and current operations of the Capital and Coast District Health Board, the Hutt Valley District Health Board, and the Wairarapa District Health Board, and recommends that the House take note of its report.

Introduction

The Capital and Coast, Hutt Valley, and Wairarapa District Health Boards (DHBs) each provide or fund health services in their respective districts, but have been working together since late 2012. The DHBs also share staff: Dr Virginia Hope is the board chair for the Capital and Coast DHB and the Hutt Valley DHB, and Graeme Dyer (whose resignation was announced after he appeared before us) is the chief executive of both the Wairarapa and the Hutt Valley DHBs. The Minister of Health reportedly announced, upon Graeme Dyer’s resignation, that the role will be split into two once more.

All three of the DHBs carry a deficit for the 2013/14 period: the Capital and Coast DHB’s total revenue was $975.657 million, and its total expenditure was $981.556 million, resulting in a deficit of $5.899 million; the Hutt Valley DHB’s total revenue was $453.647 million, and its total expenditure was $455.471 million, resulting in a deficit of $1.824 million; and the Wairarapa DHB’s total revenue was $137.773 million, and its total expenditure was $135.930 million, resulting in a deficit of $1.406 million. We heard that the DHBs previously had a combined total deficit of around $79 million, which has been reduced to $9 million for the financial year 2013/14. The DHBs are working together to break even.

Working together

The DHBs told us that their model for integration involves collaboration, service integration, joint approaches to preventative health and empowered self care, and the provision where possible of health services close to patients’ homes. There is a high level of interdependency between populations in the subregion, as many residents live and work between two districts. We were told that this was a key driver for integration, and the subregional clinical leadership group has encouraged executive management to drive integration across the three DHBs and with primary healthcare organisations and non-governmental organisations. The joint approach includes integrated contracting services.

The three DHBs are working on a project to provide cancer treatment in each area because at the moment all patients must travel to the Capital and Coast DHB. The project will aim to work within the limits of what can be transported; dangerous chemicals, for example,

2 Heather, Ben, “DHb to get own health boss after trial cops flak”, The Dominion Post, 24 March 2015.
may have to be mixed at a certain site. We will be interested to hear how the project develops, given the target for it to begin in October.

The DHBs told us that their successful collaboration is because of the strong relationship between their clinical leadership and management teams. It is an incremental process, involving collaboration and benchmarking of results between the subregion and other DHBs around the country. It is important to ensure continuity of service even through long periods of transition.

**Financial mechanisms for shared services**

We heard that the joint DHBs use a default mechanism for service pricing, but there is some variation between different areas. The default mechanism for the pricing of hospital services remains under constant scrutiny, as 65 percent of each DHB’s operating budget is spent on secondary care.

**Joined-up service provision**

We heard that the DHBs have had positive feedback about the provision of services across separate boards. However, some services are more connected than others. Although there is no single database of clinical records for the subregion, DHB staff can easily access clinical records held by partner DHBs. The joint DHBs also work collaboratively with DHBs outside their grouping, in part through a regional governance group established in the last year. We heard that this enables long-term strategic planning for clinically consistent patient care. There may be scope to expand this approach progressively to the broader region.

**Lines of accountability**

We asked about the mixed lines of accountability between the boards and chief executives of the individual DHBs. We were told that board members find that aspects of governance are made simpler through subregional information-sharing. There is also a degree of cross-appointment of DHB staff. Staff found it useful to compare and contrast relative performance, but performance measurement for each DHB still needs to be maintained.

**Geographic challenges**

We were interested in how the Wairarapa DHB provides good care for young pregnant women and elderly people given the Rimutaka hills, which lie between its area and that of the two other DHBs. The Wairarapa DHB needs to provide safe and effective birthing care in its area, and caesareans are regularly carried out in Masterton. Only in cases where a birth is extremely complex are patients flown by helicopter to Wellington.

To the extent that it is affordable and clinically safe, routine surgery for elderly patients is carried out near their homes. By treating elderly people in their communities, their quality of life is maintained. Every effort is made to avoid road transit via the Rimutaka hills. We asked about the impact of travel costs on patients with low fixed incomes, and heard that the increased focus on local service provision meant that this was not an area of high concern. General practitioners have developed a risk assessment tool, used in conjunction with assessments made in hospital emergency departments, to build common elder care plans across all three DHBs.
Pre-school dental care

Pre-school dental enrolments in the subregion have increased by 30 percent since the DHBs began working together, with 63 percent of pre-schoolers and 97 percent of primary school students now enrolled. The DHBs contact communities with low levels of enrolment through churches and preschools on an ongoing basis. A new programme offering pre-schoolers a single enrolment in immunisation and dental schemes is going well. We heard that 11 new dentists and five new dental assistants would be beginning shortly, and that this would help the DHBs with the backlog of children requiring dental care.

Mental health services

We asked what had been put in place to address the concerns raised in a recent coroner’s report about mental health services in the subregion. The DHBs have just launched an integrated mental health service, with responsibility for mental health, addictions, and services for the intellectually disabled. Its message is “new service, no boundaries”, to reflect the high proportion of mental health patients living in the community but with transient living arrangements.

Workforce demographics

We asked about workforce demography and forward planning, and noted that a significant proportion of the joint DHBs’ workforce is aged over 50, particularly in the Wairarapa DHB. A training programme is in place to recruit new graduate nurses each year, in order to build future capacity. Fewer New Zealand-trained junior doctors are now travelling to Australia or the United Kingdom for work than previously. The DHBs are working to ensure that doctors are offered the right career paths and are providing mentoring to ensure a high level of staff retention. The DHBs hold regular internal discussions and consult with health workers’ unions on future staffing.

We heard that although there is no problem with the number of medical physicists in New Zealand now, the DHBs recognise that they need to ensure that people continue to be trained in the profession, along with other specialities that there may be a shortage of in the future.

Chief executives were to meet shortly to discuss what scope exists for staff pay rises this year. We acknowledge that remuneration is an important part of attracting and retaining high quality staff.

Alcohol and drugs

We heard that alcohol is considered the greatest threat to public health in the DHBs’ subregion. The DHBs record the number of emergency department admissions linked with alcohol misuse, and have made submissions to government consultation on liquor licencing reform. They have also made submissions to the Government’s review of alcohol advertising.

Laboratory tendering process

We noted that a large majority of senior medical officers are opposed to the DHBs’ decision to seek tenders from laboratories for appointment as the joint DHBs’ single laboratory service. We heard that clinicians have been involved in the decision-making process and that Hutt Hospital physicians have recently voted in favour of the plan.
Appendix

Committee procedure
We met on 25 February and 1 April 2015 to consider the annual reviews of the Capital and Coast District Health Board, the Hutt Valley District Health Board, and the Wairarapa District Health Board. We heard evidence from the Capital and Coast District Health Board, the Hutt Valley District Health Board, and the Wairarapa District Health Board, and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Capital and Coast District Health Board, Responses to written questions, received 24 February and 26 March 2015.

Hutt Valley District Health Board, Responses to written questions, received 23 February and 26 March 2015.

Office of the Auditor-General, Briefing on the Capital and Coast District Health Board, the Hutt Valley District Health Board, and the Wairarapa District Health Board, dated 25 February 2015.

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

Wairarapa District Health Board, Responses to written questions, received 23 February and 26 March 2015.
2013/14 Annual review of Careers New Zealand, the Institute of Environmental Science and Research Limited, Landcare Research, the National Institute of Water and Atmospheric Research Limited, Network for Learning, the New Zealand Forest Research Institute Limited (SCION), the New Zealand Qualifications Authority, the New Zealand Teachers Council, Research and Education Advanced Network New Zealand Limited, and the New Zealand Institute for Plant and Food Research Limited

Report of the Education and Science Committee

The Education and Science Committee has conducted the annual review of the 2013/14 performance and current operations of Careers New Zealand, the Institute of Environmental Science and Research Limited, Landcare Research, the National Institute of Water and Atmospheric Research Limited, Network for Learning, the New Zealand Forest Research Institute Limited (SCION), the New Zealand Qualifications Authority, the New Zealand Teachers Council, Research and Education Advanced Network New Zealand Limited, and the New Zealand Institute for Plant and Food Research Limited 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
2013/14 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 2013/14 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, supported by an office, and operating under the Children’s Commissioner Act 2003. The office promotes the interests, rights, and well-being of children and young people up to the age of 18. Its main functions include monitoring and assessing the services provided for children under the Children, Young Persons and their Families Act 1989, and advocating for the interests, rights, and well-being of children.

In 2012/13 the office’s total income was $2.271 million and its total expenditure was $2.308 million, resulting in a deficit of $37,000. We understand that this overspend was financed from the office’s reserves. It follows a loss of $245,000 in the 2012/13 year, which was also financed from reserves.

Resourcing pressures

This pattern of deficit and overspending from reserves is a matter of some concern. We explored with the commissioner what steps have been taken to ensure that the office can operate within the current financial constraints, and how they are impacting on its work programme and, in particular, its process for oversight of complaints. We heard that the reserves available for drawing on have diminished to the point where they now amount to between four and six weeks of operating budget and that they are expected to remain at that level.

We were aware that there had been cutbacks to publications, reduced frequency of Young Person’s Advisory Group meetings, and the Auckland office had been closed. We asked what other actions are likely to be taken. The office assured us that priority was being given to operating as effectively as possible by changing the way that some activities are managed. We were told that the Auckland office would have closed regardless of the financial situation, and the office had instituted in its place a more effective team working model.

We heard about significant changes to the monitoring of Child, Youth and Family services. The office has adopted a thematic approach to its review of service provision, designed to result in improvements to the systems which are in place to respond to vulnerable children. This has meant a cut-back in the number of visits to individual sites, and a new focus on targeting those visits so that a range of sites is covered rather than the totality. There is also a focus on examining data provided by Child, Youth and Family, to produce reports that influence practice across Child, Youth and Family as a whole, rather than just at individual sites.
We were told that there have been two thematic reviews to date and we note that the office considers that the first, which looked at youth specialty services, has already had a substantial impact. The second, which is ongoing, will review the preparedness of Child, Youth and Family sites to work with Children’s Teams.

Financial constraints have also led to a cutting back in the frequency of monitoring visits to Child, Youth and Family’s nine youth justice and care and protection residences; these are now carried out every 18 months, rather than annually. This has required the office to combine its general mandate with its mandate to inspect sites under the Optional Protocol to the Convention against Torture, so that both responsibilities will be addressed when it visits sites. We were told that this approach is working well and that the office has received positive responses from residence managers.

We asked the commissioner about the risk that the reduced number of monitoring visits to Child, Youth and Family sites could result in cases of neglect going unremarked. We were told that this risk is not related to budget. The large number of notifications to Child, Youth and Family each year means that even a large team would not be able to monitor the experience of every individual in the system. Instead, the office’s new approach is seeking to influence best practice across the system’s 800 social workers through its thematic reviews.

We commend the office on its efforts to maximise its impact with the funding it has available, and its obvious determination to find new and effective ways to meet its obligations despite constraints. However, we have noted, and are concerned at, the office’s assessment in its Briefing to the Incoming Minister in 2014, that “all available savings have been implemented”. We believe that the office’s statutory functions are important and will be monitoring future developments relating to its ability to perform its statutory functions at an appropriate level.

**Comparison with statutory care systems overseas**

We noted the poor outcomes of children living in care, who represent more than half of youth suicides and have an elevated chance of going to prison in adulthood. We asked how New Zealand measures up internationally. The office told us that it will release an aggregate report of its findings across all Child, Youth and Family sites in August, and that the office’s advocacy funding is largely being used to prepare this report.

We were pleased to hear that there are examples in the Child, Youth and Family system where impressive leadership and transformational practice can build a capacity in children which helps them to thrive in later life. We note also that the national preventive model in New Zealand is considered to be a world leader in its use of strategic partnerships and its thematic approach to creating systemic improvements.

The commissioner acknowledged, however, that this good practice needs to be more widely the case than it is at present, and that many children leave State care without a clear plan, and without access to the resources that could give them a sustainable path forward. He told us that he would support raising the upper limit of statutory care and protection provisions to age 18 to help address this issue.

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1 The committee was told that each year there are 150,000 notifications to Child, Youth and Family, 5,000 children in care, and 1,000 coming into care.

Initiatives to support vulnerable children

In 2013/14 the office was involved in a number of initiatives to support vulnerable children. We heard that it has been reviewing the preparedness of Child, Youth and Family sites to work with the Children’s Teams, which play a central role in the Children’s Action Plan. We also heard that the commissioner sits on the Children’s Action Plan Workforce Advisory Group, which drafts policy and decides on best practice approaches to working with vulnerable children. The office has also been working with the Office of the Privacy Commissioner to develop guidance on sharing appropriate and relevant private information about parents for professionals working with at-risk children. This work was carried out to address a widespread misapprehension in the child protection workforce that to share parents’ private information with another professional is to breach confidentiality, when this is not in fact the case.

The United Nations Convention on the Rights of the Child requires that the voices of children and young people contribute to policy formation, and we were interested to hear that the office facilitates the Young Person’s Advisory Group to assist in meeting that requirement. In 2013/14, this group offered a youth perspective on a number of important issues, including the Ministry of Education’s cyber-bullying guidelines, the Government’s Smoke-free Environments (Tobacco Plain Packaging) Amendment Bill, the New Zealand Constitution, and the Vulnerable Children Act 2014.

Addressing child poverty

In 2013/14 the office did a substantial amount of work on child poverty. The office’s second annual Child Poverty Monitor, published in December 2014, is intended to raise public awareness of child poverty, and to track progress on reducing negative outcomes for children living in poverty. This is important work and we encourage the office to continue with this initiative.

We were interested also to hear about another paper issued in May 2014, reflecting the office’s general approach to encouraging better systemic practice; this dealt with guidelines relating to the provision of food in schools. This paper was produced, in partnership with NGOs, philanthropists and the Ministry of Education. The office acknowledged that such school programmes could do harm by stigmatising children or creating dependency, but we were pleased to hear their assessment that, when such schemes are done well, they can improve both attendance and educational attainment.

Other work by the office in 2013/14 included a report addressing the vulnerability of families that use pay-day lenders charging punitive rates of interest. Work was also initiated with the Bankers’ Association to develop, in conjunction with NGOs and Work and Income, micro-loans at reasonable rates of interest for families in need. That work resulted in the Government’s recently announced Good Shepherd scheme.

We asked the commissioner for comment on progress in addressing the 78 recommendations of the December 2012 report of the Expert Advisory Group on Solutions to Child Poverty, Solutions to Child Poverty in New Zealand: Evidence for Action. We were pleased to learn that the office considers that the report helped to raise awareness of the 285,000 children (27 percent) living in households where family income falls below the poverty line, and also of the broader societal impact of this situation. We were also pleased to hear that one third of these recommendations have now been
implemented. The commissioner expects further progress to follow the May 2015 Budget, and we look forward to an update at the next annual review.

We commend the office for the advocacy work it does in relation to vulnerable children, particularly the work it carries out in relation to child poverty.
Committee procedure

We met on 11 March and 1 April 2015 to consider the annual review of the Children’s Commissioner. We heard evidence from the Office of the Children’s Commissioner and received advice from the Office of the Auditor-General.

Committee members

Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Stuart Smith
Louisa Wall
Poto Williams

Evidence and advice received


Office of the Children’s Commissioner, Responses to written questions, received on 5 February and 24 March 2015
2013/14 Annual review of the Commerce Commission

Report of the Commerce Committee

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Recommendation
The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Commerce Commission and recommends that the House take note of its report.

Introduction
The Commerce Commission is an independent Crown entity under the Crown Entities Act 2004, and was established under section 8 of the Commerce Act 1986. The commission's purpose is to make consumers better informed, markets more competitive, and regulation more targeted and effective. The commission acts as both a competition authority and a regulatory agency, funded through Vote Commerce and Vote Communications. Its responsible Minister is the Minister of Commerce and Consumer Affairs.

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

In 2013/14, the commission received a total income of $37.422 million, most of which came from the Crown ($34.929 million). Expenditure was $33.399 million, resulting in a net surplus of $4.023 million.

Investigations of alleged anti-competitive behaviour

Progressive Enterprises Limited
We asked the commission about their recent investigation of allegations of anti-competitive and intimidating behaviour by Progressive Enterprises Limited (the parent company of the Countdown supermarket chain) towards its suppliers. The commission said that Progressive did not breach the Commerce Act 1986 or the Fair Trading Act 1986; however, the commission subsequently advised Progressive that the terms of its contracts with suppliers need to be clearer. The commission believes that the company’s price negotiations with suppliers were “quite normal”.

Sky Network Television Limited
We asked why the commission did not take further action after it found Sky Network Television Limited’s contracts with telecommunications service providers to be in breach of the Commerce Act. The commission explained that the telecommunications market was in a “state of flux” at the time, and that Sky’s actions were deemed unlikely to have lasting anti-competitive consequences. The commission will keep an eye on developments in this dynamic market, and is in the process of undertaking an ex-post review.

Copper pricing
The commission is working towards setting the price internet providers pay Chorus Limited for physical access to its copper loop, which carries the internet to consumers. The commission explained that it is not setting the price according to its own preference; it is applying the pricing principles set out in the Telecommunications Act 2001.
We queried the process used, noting in particular that the copper price was benchmarked against only two other countries. The commission explained that only two countries were truly comparable with New Zealand for copper pricing. It said that a subsequent, more detailed cost analysis endorsed the original benchmark.

The copper price may also affect the development of fibre cables for internet transmission, and the commission said internet providers could expect more clarity regarding the copper price in late May 2015. The final pricing review is due at the end of September 2015.

**Litigation and settlement**

The commission is confident that it is adequately resourced for major litigation, pointing to its four-year air freight cartel case in support. We queried the large reduction in its spending on legal fees over the past year, and the commission explained that it budgets for legal fees at the start of the year on the assumption that cases will go to court, but some cases are settled without proceeding so far, including the interest rate swaps cases against banks that were budgeted for last year. Priority was given to settling rather than going to court in the interests of returning money to affected consumers, which might be delayed by a lengthy court case, or might not happen at all, as any penalties awarded would go to the Crown. The commission assured us that no cases were not pursued because of a lack of resources.

**Telecommunications**

The commission is contributing to the Minister’s review of telecommunications regulations by advising on the practicalities of policies, and expects to be deeply involved with the review. The commission is confident it is adequately resourced to do this while attending to other telecommunications priorities, including broadband pricing, assessing competition in the mobile market, and generally monitoring the industry.

**Institutional design**

We noted that the commission both regulates markets and enforces regulations, and we asked if an independent board should have oversight of the commission to ensure its accountability. The commission said there is no one correct model. Some countries have no independent board. Some countries fuse their economic regulation and enforcement of competition law functions. The commission believes the main focus should be on operational performance rather than the operating model.
Appendix

Approach to this annual review
We met on 12 and 26 March 2015 to consider the annual review of the Commerce Commission. We heard evidence from the Commerce Commission and received advice from the Office of the Auditor-General. The advice, evidence, and corrected transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Commerce Commission, Responses to written questions 1–127, dated 9 March 2015.
Office of the Auditor-General, Briefing on the Commerce Commission, dated 12 March 2015.
Organisation briefing paper, prepared by committee staff, dated 27 January 2015.
2013/14 Annual review of Crown Fibre Holdings

Report of the Commerce Committee

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Crown Fibre Holdings

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of Crown Fibre Holdings, and recommends that the House take note of its report.

Introduction

Crown Fibre Holdings (CFH) is a Crown-owned company established under the Companies Act 1993, and listed under Schedule 4 of the Public Finance Act 1989. CFH was established to manage the Government’s $1.5-billion investment in ultra-fast broadband (UFB) infrastructure. Its objective is to accelerate the rollout of UFB to 75 percent of New Zealanders by 2019.

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

Ultra-fast broadband

Obstacles to building network

CFH is responsible for the physical building of the fibre network to carry ultra-fast broadband, and the main obstacles it has faced relate to consents for, and access to, necessary local infrastructure. CFH acknowledged that around 25 to 30 percent of premises face consenting issues to allow connection. It noted that the solutions rely on Government policy and law changes. However, the building of the network is now under way in all 33 urban areas covered by the current building plan. CFH said that Cabinet’s recently announced environmental standards will simplify the obtaining of consents for building the network. It recognised that in the subsequent expansion of the network to between 30 and 50 towns, new issues may arise, as there will be many more local authorities involved.

Third-party consents for connecting to the network

Once the physical network is built, premises such as houses and apartment buildings need to be connected to the network to access UFB. We asked whether CFH is confident that all premises counted as “passed” by the fibre network can in fact connect to it, since some premises may encounter difficult consenting processes. For example, those with shared driveways or “right-of-ways” must obtain approval from all the owners of the driveway, and those in shared buildings need the agreement of the building owner.

CFH told us that while the design of consenting rules is beyond its mandate, its partners, known as local fibre companies (LFCs), report to it on this issue, and they are working “very hard” to minimise the time it takes to connect premises. They have contracted Australian specialists experienced in connecting apartment buildings to the Australian National Broadband Network, and their advice has considerably decreased the average number of days taken to connect apartments to the New Zealand network. CFH is working within the current legal framework to improve its partners’ processes for obtaining consent in right-of-way cases.
Cost of connecting

Chorus Limited, one of CFH’s main partners, has a Non-Standard Installation Fund to provide free connection to the network for premises beyond the standard 15-metre distance that it funds automatically. To date, Chorus has put $28 million into the fund, and we asked how much remained. CFH told us that only $100,000 has been drawn down, and that as Chorus’ costs for connecting apartments and right-of-ways have fallen, it expects the fund to be sufficient for a long time.

CFH explained that although it does not have access to information on how these cost savings have been achieved, it believes they are the result of productivity and efficiency gains made after two years’ experience. The savings are also in line with international experience, for example that of Verizon Communications Incorporated in the United States.

Consumer satisfaction

We asked if CFH conducts research on consumers’ satisfaction with the experience of connecting to the fibre network, and heard that CFH’s four partners do so. Its partners are meeting their targets, with satisfaction measured at around 90 percent. CFH noted that on the basis of other countries’ experiences, it expects this number to increase over time.

Benefits

We asked CFH what benefits it has seen from the UFB roll-out. We heard that UFB has contributed to the information, communication, and technology sector becoming the fastest growing and third largest in South Canterbury’s economy, businesses are making productivity gains of up to 15 percent from faster speeds for uploading content to the internet, and schools that adopted UFB early have significantly lifted their students’ reading ages.

Uptake of ultra-fast broadband

CFH explained that retail service providers, which under the New Zealand model purchase fibre internet wholesale from LFCs and then sell retail services to consumers, are responsible for getting consumers to switch from the copper network to fibre. We asked how New Zealand’s progress compares with experiences overseas. CFH told us that Singapore has the most comparable model, and when it had built 45 percent of its entire fibre network (as we have now), the uptake was under 10 percent, while ours is around 11 percent.

Uptake increases rapidly when the network is complete; Singapore has completed its network, and uptake is now around 50 percent. In urban areas where the network is complete, such as Whangārei and Blenheim, uptake has been “steadily building”.

Gigatown project

We asked CFH about the Gigatown project, in which Chorus is providing Dunedin with UFB ahead of other areas as the result of a national competition. CFH said that under the terms of their contracts, partners are allowed to release trial products, and it believes the Gigatown project will be a “great learning experience”. As residential UFB services are uncommon internationally, there is little experience to draw on when deploying them.
Appendix

**Approach to this annual review**

We met on 19 March and 2 April 2015 to consider the annual review of Crown Fibre Holdings. We heard evidence from Crown Fibre Holdings and received advice from the Office of the Auditor-General. The advice and evidence received, as well as the transcript of the hearing of evidence, can be found on the Parliament website www.parliament.nz.

**Committee members**

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

**Evidence and advice received**

Crown Fibre Holdings, Responses to written questions, received March 2015.


Organisation briefing paper, prepared by committee staff, dated 22 January 2015.
2013/14 Annual review of Crown Irrigation Investments Limited

Report of the Primary Production Committee

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Recommendation

The Primary Production Committee has conducted the annual review of the 2013/14 performance and current operations of Crown Irrigation Investments Limited, and recommends that the House take note of its report.

Introduction

Crown Irrigation Investments Limited was established on 1 July 2013 as a Crown entity. Its role is to manage investments in regional water infrastructure development on behalf of the Government.

Financial performance

Crown Irrigation Investments Limited’s total income for 2013/14 was $68,534 and its operating expenditure was $2,660,885. The company’s operating expenditure is financed from $80 million in Crown capital allocated in Budget 2013. It recorded a loss of $2,861,606. Its total equity for 2013/14 was approximately $5.2 billion.

Business models

We understand that it might be necessary for new commercial irrigation schemes to interact with existing cooperative schemes, running in parallel with them or absorbing them. We heard, however, that farmers’ objective for the cooperative model is incompatible with the Crown’s objective for irrigation schemes.

The cooperative model works on cost-recovery, which means that farmers can take water on to their land at the cost of delivery, rather than paying by volume. This water in turn increases the land’s value. The Crown’s objective is to see water priced so that not too much land value is derived from water for which the farmer has not paid.

Land capitalisation

At the point when large-scale irrigation schemes are proposed, farmers do not have the equity base to fund their development. When the scheme is approved, however, farmers acquire the necessary equity because the approval raises the value of their land. Some of us were concerned that this economic model could encourage current farmers to count on the improvement in their land value, making it harder for future farmers to afford the land.

We heard that a dry-land farmer’s return on assets after investing in a scheme is not out of the ordinary compared with other investments. We know that when irrigation schemes are built, the land use changes to exploit the opportunities available. Crown Irrigation Investments Limited considers that dairy is not the highest and best use of water on farmland.

Schemes are being setting up so initially a farmer can buy shares for a specified sum per share. If a farmer does not purchase his or her shares at the outset then they incur capitalising interest, raising the price per share progressively. In the Barhill Chertsey Irrigation Limited scheme, for example this interest is set at nine percent per annum. This is designed to dissuade farmers from remaining uncommitted in the set-up phase. Crown
Irrigation Investments Limited assured us that proposals allow for additional plant capacity so farmers in the future can opt into the scheme, but without giving them an outright subsidy for opting into the scheme at a later point. Crown Irrigation Investments Limited conceded that it is difficult to get away from giving current farmers who opt into schemes unearned capital at the expense of subsequent farmers on the same land. As an investment manager, Crown Irrigation Investments Limited considers the perfect corporate commercial model to be one where the value of the water is captured in the water user agreement and not on individual farms. This is directly contrary to the cost-only delivery model used in the traditional cooperative schemes.

**Environmental considerations**

Regarding the sustainability of schemes’ effects on waterways, Crown Irrigation Investments Limited’s position is that the environmental controls or standards imposed on a scheme are left to the scheme to manage, and that the risk of the scheme not complying with these controls or standards must be mitigated. Non-compliance could result in a scheme being shut down, which would mean no capital return to Crown Irrigation Investments Limited.

Compliance is monitored by regional councils. Senior lenders to a scheme get detailed monthly reports from the schemes. The reports include compliance with environmental standards. Crown Irrigation Investments Limited has no expertise in monitoring the environmental performance of irrigation schemes, and relies on regional councils to provide it with pertinent information. Before investing in a scheme Crown Irrigation Investments Limited examines the relevant consents and environmental requirements, and monitors how they are managed during its due diligence process.

**Climate change**

The schemes that Crown Irrigation Investments Limited deal with have commissioned climate studies by expert organisations such as Niwa in order to attract capital. Crown Irrigation Investments Limited then focuses on the risk to the Crown’s capital if climate change causes detrimental effects to the environment.

**Other water users**

We understand that there may be many water users to consider when Crown Irrigation Investments Limited invests in an irrigation project. It expects other water users’ interests to be considered by regional councils.

**Feasibility and pre-feasibility funding**

Crown Irrigation Investments Limited works to overcome barriers at the feasibility and pre-feasibility stages of irrigation projects. The skills and capability that are needed at governance and management level for a $200-million project are scarce, so capability constraints may slow the project management process for new schemes. Crown Irrigation Investments Limited tries to engage early with schemes to ensure that they contract the right advisers and establish appropriate strategies. Although equity investors control the governance of companies, Crown Irrigation Investments Limited ensures the appropriate mix of skills for the governance of the irrigation scheme before investing any equity in it.

Crown Irrigation Investments Limited agreed that involving companies that are already engaged in water storage and water use can make irrigation schemes easier. However, the capital-market structure that these companies demand is not usually compatible with a
cooperative structure. We consider that the same issues that have inhibited many changes in agriculture over the last 50 years are inhibiting irrigation schemes.

**Development capital**

Crown Irrigation Investments Limited’s mandate is to invest in the building of core infrastructure for irrigation schemes. Development capital is limited to this purpose. The Irrigation Acceleration Fund funds some pre-feasibility work, but Crown Irrigation Investments Limited considers that there is a gap in the availability of development capital for these schemes.

**Ruataniwha scheme**

Crown Irrigation Investments Limited has not given any grants to or invested in the Ruataniwha Scheme in the last 12 months. However, it has had discussions with the proponents of the Ruataniwha Scheme and is waiting for the submission of an investment proposal. Crown Irrigation Investments Limited considers that the scheme has a number of steps to complete before it will be ready for the investment market.

**Central Plains Water**

Crown Irrigation Investments Limited consider that it would be optimal if all the existing and proposed irrigation schemes in central Canterbury merged, with a single operating company; this would lead to much more efficient delivery of water in Canterbury. If cooperatives were to merge, a farmer’s water source could be controlled by someone other than the farmer using the water. It is recognised that this might be a source of discomfort. A new scheme is being established for Central Plains Water, rather than merging existing cooperative schemes, to minimise this concern.

We are concerned that investment pressures on the Central Plains Water scheme from farmers covered by the scheme being converted to dairying to maximise returns on investment could lead to environmental challenges. We agree with Crown Irrigation Investments Limited that some farmers are not fully cognisant of the risks of converting so much land to dairy farms, but we consider that banks investing in this scheme believe they have the necessary expertise. We are concerned nevertheless about the risk that intensified dairy farming may prove environmentally challenging, compelling the Government of the day to impose constraints on production.
Appendix

Approach to this financial review
We met between 12 February and 12 March 2015 to consider the annual review of Crown Irrigation Investments Limited. We heard evidence from Crown Irrigation Investments Limited and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O'Connor
Richard Prosser
Stuart Smith
Meka Whaitiri

Evidence and advice received
Crown Irrigation Investments Limited, responses to written questions, received 5 and 17 February 2015.
Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
2013/14 Annual review of the Earthquake Commission

Report of the Finance and Expenditure Committee

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Earthquake Commission

Recommendation
The Finance and Expenditure Committee has conducted the annual review of the 2013/14 performance and current operations of the Earthquake Commission, and recommends that the House take note of its report.

Introduction
The Earthquake Commission (EQC) was established in 1945. It insures residential property against loss or damage caused by natural disasters, administers the Natural Disaster Fund, and arranges reinsurance from overseas. It also funds research and education about natural disasters and ways of reducing the damage they cause. Since the Canterbury earthquakes its role has also included managing a substantial part of the repair and rebuilding through a contract with Fletcher Construction, designing and supervising land remediation work, and providing engineering advice.

The chief executive is Ian Simpson. Sir Maarten Wevers took up the role of board chairman on 1 August 2013 with the retirement of Michael Wintringham.

Financial position
The commission earns income from insurance premiums and investments. Its main expenses are for payments on claims and the purchase of reinsurance. Any surplus at year’s end is added to the Natural Disaster Fund, from which claims are paid.

Before the Canterbury earthquakes, the balance of the Natural Disaster Fund stood at over $6 billion. At 30 June 2014 the fund had a deficit of $1.08 billion (the deficit was $1.37 billion the previous year). The Crown is obliged under the Earthquake Commission Act 1993 to fund any shortfall.

During the year the commission paid out nearly $8.4 billion on claims and repairs. Its outstanding claims liability fell by $2.1 billion, to $4.5 billion as at 30 June 2014.

Audit report
As in the past three years, the Auditor-General’s report on the 2013/14 audit of EQC draws attention to the going concern assumption, and to uncertainties in the calculation of EQC’s outstanding claims liability. It notes several areas that need improvement in the commission’s management control environment and its service performance information and associated systems. The commission’s financial information systems and controls were graded as “good”.

Update on EQC’s work
The commission’s work in 2013/14 continued to be dominated by processing claims from the Canterbury earthquakes. By the end of June 2014 more than 80 percent of repairs under the Canterbury Home Repair Programme had been completed. By the time of our

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1 ECQ covers the first $100,000 worth of damage to residential buildings and the first $20,000 of loss of contents. It also provides partial cover for land damage, which is unusual in the world.
hearing, repairs had been completed on 94 percent of houses in the programme (65,102 houses), with about 3,000 remaining.

Having grown from 22 staff before the Canterbury earthquakes to more than 1,800 in 2013, the commission is now scaling back. It expects to have about 1,000 staff by the end of 2015, and told us it is actively helping its staff move on to new opportunities.

During the year under review EQC also dealt with claims from earthquakes in the Cook Strait—which caused widespread damage in Wellington and the lower North Island—and in Eketāhuna. The Cook Strait quakes produced the second largest number of claims in the commission’s history, after Canterbury. EQC told us it applied the lessons it had learned from Canterbury, and has already paid out on 97 percent of the 12,300 claims from the Cook Strait event.

**Official information requests**

We noted that EQC believes it has addressed recommendations by the Chief Ombudsman and the Privacy Commissioner in December 2013 about its failure to respond to requests under the Official Information Act and Privacy Act in the statutory timeframe. (At the time of the investigation, EQC had a backlog of 1,300 requests, with customers waiting six to seven months for a response.) The backlog of OIA requests was cleared by the end of April 2014, and the commission is now responding to requests in an average of 13 days, which compares well with most other agencies.

**Improving customer services**

We asked what the commission is doing to improve the way its deals with customers. We note that EQC has quite a low target for customer satisfaction, of only 70 percent, yet it fell well short of this in 2013/14, with only 33 percent of customers satisfied with their interactions.

EQC said it has been putting a great deal of effort into redesigning its processes for engaging with customers, and improving the way it handles claims. It noted that the 70 percent target is a longstanding one, recognising that there will always be dissatisfied customers when dealing with natural disasters. People want to get their lives back on track immediately, and the commission said it simply cannot offer this in all cases.

EQC pointed out that the current 33 percent satisfaction reflects the fact that the claims still to be resolved, although few in number, are the most difficult ones. They involve customers who have been waiting for up to 4½ years since the first earthquake. Their frustrations are understandable, and are likely to continue to be reflected in the survey results.

Asked whether the target should be changed, EQC’s chief executive said that the commission might instead do more to explain to people what they could expect after a disaster, and how long repairs might realistically take.

**Minority view of the Labour Party and Green Party members**

The Labour Party and Green Party members of the committee believe it is not good enough that it has taken EQC almost 5 years since the initial earthquake to change its processes for engaging with customers.
Satisfaction with repairs

In contrast with dissatisfaction felt by people waiting for repairs, EQC pointed out that 85 percent of people report satisfaction with the quality of the repairs carried out, which is higher than results nationwide for regular building work. For example, a survey in 2011 by the Building Research Association of New Zealand found that 71 percent of people getting a house built or repaired had to get a builder back to fix things. It suggested this be kept in mind against news reports that a third of new homes in Canterbury have not been wholly up to standard.

As for Fletcher EQR, the commission told us it monitors and audits the quality of the repair work it carries out. About 4 percent of homes have required remedial work, which it believes represents performance well above the national average. The commission stressed that it stands behind the work and is committed to having any defects put right.

EQC added that news reports were incorrect in suggesting it excludes certain people from the database used for surveys of completed repair work; it does not make any exclusions.

Review of customer service model

The commission said it has openly acknowledged the shortcomings in the way it dealt with customers and the community after the Canterbury earthquakes, and has been working to improve its performance for the future.

To this end, the board commissioned an external review by a company called Linking Strategy and Implementation (LSI). Asked why the LSI review did not examine the performance of Fletcher EQR, which is handling the repair programme, the commission said it wanted to help its own staff to improve their claims handling processes and the way they deal with customers, and to identify key issues and gaps.

We note that the report was highly critical of the commission’s performance with customers, and that EQC was criticised by the Chief Ombudsman for not making the report more public. EQC said there had been no attempt to bury the report. It was put on the commission’s website, and discussed with the customer advocacy group CanCERN and various community groups. It accepts that it needs to meet customers’ expectations better. It described changes to its approach to case management and community engagement in response to LSI’s recommendations, which were applied successfully after the Cook Strait and Eketāhuna quakes.

EQC also believes other things require change. In particular, the approach of local councils to land use, with planning decisions allowing subdivision in areas known not to be geologically sound, greatly complicated the task of EQC in Canterbury. While it accepts the need to do better in dealing with customers, it also pointed out that some of their concerns—issues to do with red zoning and technical category ratings of land—were simply not matters it was statutorily empowered to resolve.

Lessons for the future

We heard that EQC applied some of the lessons from Canterbury in dealing with people after the Eketāhuna and Cook Strait earthquakes, informing them promptly as to when assessors would be in their area, and engaging with local community groups from the start.

We noted that some of the difficulties in Canterbury arose from the limited number of professional assessors available, and from EQC’s record-keeping, with many paper records lost in successive quakes. EQC said it has moved to electronic devices for capturing data in

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the field rather than recording it on paper, and now has much better record systems so that
people can see their own claim files online.

Regarding qualified staff to assess damage, EQC said its contingency planning had included
having experts on call, but its plans had simply been overwhelmed by the scale of the
earthquakes. Before 2010, research had suggested the most likely scenario would be a
Wellington quake, generating 150,000 claims. The actual number of claims from
Canterbury was five times as great, at about 750,000. New Zealand simply does not have
enough loss adjusters to respond to an event of that scale. EQC has been building a body
of previous employees with experience from this disaster, and retains on flexible contracts
people on whom it could call. It has also worked with private insurers to decide how the
available skills would be shared in such an event.

EQC assured us that it continues to seek out lessons from international experience to help
in future disasters. It noted that one lesson applied in Canterbury—settling low-value repair
claims in cash—had been picked up from Chile.

**Reinsurance and the Natural Disaster Fund**

Obtaining reinsurance is more important until the Natural Disaster Fund is built up again,
having been depleted by the Canterbury earthquakes.

EQC explained that the reinsurance it buys protects the Crown’s balance sheet against the
risk of another major disaster. It receives about $280 million a year in premiums, and any
surplus after allowing for payouts on claims is being invested in buying as much
reinsurance as it can. It counts it as a major success that it has managed to procure an
additional $600 million of reinsurance cover for the coming year, bringing the total
reinsurance for New Zealand to $3.8 billion—almost double the cover before the
earthquakes. While the cost is higher than before the quakes, it has dropped since last year.
It said the success in obtaining reinsurance on acceptable terms is largely because New
Zealand is viewed favourably by international reinsurers.

EQC explained that several factors contribute to this opinion of New Zealand. The
existence of the Canterbury Home Repair Programme is important; such a model had not
been tried before, but has been implemented successfully despite some challenges. The
commission said it has helped that it has been open with reinsurers about progress, and
difficulties, with the recovery. The extensive detailed technical data collected, and risk
modelling, have also helped reinsurers greatly in assessing the risks. We were interested to
learn that the data has been widely valued internationally; for example, standards for pipe
manufacturing in the USA have been revised on the basis of data from Canterbury.

We heard that the price charged for reinsurance is affected by international as well as local
events. Premiums rose sharply after 2010—by 3 to 4 times—because there were several
other global disasters such as the Japanese earthquake and tsunami, and reinsurers started
to feel they did not fully understand the risks they were covering. Over the past few years
reinsurance premiums have been falling again, by about 10 percent a year.

**Review of the EQC Act and scheme**

The commission told us the stand-out feature of the past year has been the reaffirmation of
the importance of the EQC scheme. It says the scheme is unique internationally in
providing a buffer against natural disasters. Not only do its payouts help people and
communities to recover from property loss, but it plays a big role in protecting the Crown
from fiscal risk, and helps keep property and insurance affordable for New Zealanders.
The Government announced in September 2012 that it was planning to review the Earthquake Commission Act to see if changes to disaster insurance arrangements might be desirable. We heard that EQC expects the review to start this year. It noted several major issues the review is likely to cover: what EQC insures, the structure and extent of its cover, how insurance against natural disasters is priced, how much reinsurance it buys, how much risk the Crown takes on and how that is managed financially, and the legislation covering EQC’s structure and operations.

EQC’s chairman told us that while the board considers the EQC model to be very strong, improvements could be made, and the board will be encouraging changes to the current legislation.

Rebuilding the Natural Disaster Fund

The commission noted that the $6 billion in the fund when the earthquakes hit meant that the costs did not immediately flow through to the Crown’s balance sheet, with the implications that would have had for interest rates, the exchange rate, credit ratings and so forth. How quickly the fund is rebuilt, and whether the Crown chooses to put some money in as a short term measure, will be an important issue for the review to consider.

International comparisons

EQC told us there are really no international benchmarks against which to measure New Zealand’s disaster response, as situations differ so widely. Nevertheless we were interested by EQC’s comments about the level of disaster insurance and the pace of settlements in New Zealand compared with overseas.

EQC commented that the speed of payouts after Japan’s Tōhoku earthquake and tsunami in 2011 was truly impressive: a million claims were settled in less than 9 months. By this measure, its own performance has been slow. However, it noted that those were cash settlements, rather than getting people back into their homes. It has been reported that only about 14 percent of the 220,000 homes needed have been completed four years on from the disaster in Japan, and 180,000 people are still in temporary accommodation.

We heard that disaster insurance in New Zealand is more affordable and more widely taken up than anywhere else. While 80 percent of Canterbury’s insurable losses were covered by insurance, reinsurance, or the Natural Disaster Fund, the comparable figure in Japan was 15 percent, and only 5 percent for the California earthquake in 1994. In Haiti and the Philippines there had been no insurance cover.

Only 15 countries in the world operate a natural disaster insurance scheme such as EQC’s. Australia does not; in consequence, people tend not to insure against risks such as flooding in Queensland, as the private premiums are very high. In the USA, only California offers earthquake insurance, and few people take it up as it is not compulsory.

EQC said considerations like these highlight the importance of the review of the Act and scheme, to make sure that New Zealand maintains the right balance, with private capital and risk-taking backed up by a public scheme.

Research into natural hazards

The commission is a major funder of research into natural hazards. It is the main source of funds for the Crown research institute GNS (Geological and Nuclear Sciences), through which it delivers the Geonet programme. It works with universities around New Zealand in
a range of disciplines relating to natural disasters, and with various commercial entities working internationally in this field.

We heard that the commission is keen to contribute more to developing national thinking about hazard risk management. It is involved in the National Science Challenge about improving resilience to natural hazards, which GNS is hosting. It also sees the review of the Act as an opportunity to consider wider issues such as land use, local government planning, and building and engineering standards.

We greatly value the work EQC does in contributing to New Zealand’s world-leading reputation in the field of natural hazard risk management, and will follow with interest how its role develops as the Act and the structure of the scheme are reviewed.
Appendix A

Committee procedure
We met on 11 March and 1 April 2015 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
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Eugenie Sage replaced Dr Russel Norman for this item of business.

Evidence and advice received
Earthquake Commission, Responses to written questions, received 20 February and 24 March 2015.


Organisation briefing paper, prepared by committee staff, dated 9 March 2015.
Appendix B

Transcript of hearing of evidence 11 March 2015

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

Witnesses
Sir Maarten Wevers, Chair
Ian Simpson, Chief Executive
Bryan Dunne, General Manager Strategy, Policy and Legal and General Manager Information Systems and Transformation
Gail Kettle, General Manager Customer and Claims
Introduction

Wevers

Well, thank you very much, Mr Chair. Good morning to all the members of the committee. I’m sure all of you will know Ian Simpson, the chief executive of the commission. Thank you very much for the opportunity to talk about the performance of the Earthquake Commission. Formally, I think this is for the period until 30 June last year, but of course a lot has happened in the intervening period and we’d be very happy to take questions over what has happened since then. I’d just like to note: it's been obviously another very intensive year for the commission, for the board, and for the staff, particularly in Canterbury.

To date, in other words updating you from the period from the end of June, as at the moment we have repaired, under the Canterbury Home Repair Programme, 65,102 houses, or 94 percent of the houses in the programme, and paid out close to $8.4 billion dollars in claims and repairs. Over the period, of course, we’ve also received significant challenges in relation to the Cook Strait earthquake claims and Eketāhuna. In fact, it may interest committee members to know that, after Canterbury, the Cook Strait earthquakes were the largest single event that the Earthquake Commission has ever dealt with, and 97 percent of those 12,200 claims have already been paid out.

I think the stand-out feature, really, I suppose, for the commission over the last year is the reaffirmation of the importance of this scheme. I think, as members will be aware, the Earthquake Commission was established in 1945 following the Murchison, Napier, and Wairarapa earthquakes, and it is unique internationally in providing a buffer against natural disasters. It delivers financial resources to individual customers and communities to recover from individual property loss, it has a big role in managing the Crown’s fiscal risks, and it sustains the affordability of residential property and insurance for all New Zealanders. Disaster insurance in New Zealand is much cheaper, more affordable, and much more widely taken up than any other country on the planet. So there are obviously enormous lessons that we can learn from the response both of the Earthquake Commission, the national disaster fund, and others to the Canterbury earthquakes, and share those with our international colleagues. And this week, along with Minister Brownlee and Mayor Lianne Dalziel and others, I’ll be attending the Third UN Conference on Disaster Risk Reduction in Sendai, which is an international vehicle for sharing these lessons.

The Earthquake Commission is now one of the largest natural catastrophe reinsurance programmes in the world. One of the really important things that has been demonstrated by our scheme is that we have been able to retain the confidence of international reinsurers through the events, and we now have procured an additional $600 million of reinsurance cover for the coming year, meaning that total reinsurance for New Zealand is now at a level of $3.8 billion dollars. So that is an enormously important backstop were there to be another large event. The reinsurers have given us very strong ratings around the existence of the Canterbury Home Repair Programme, which, as I say, has now repaired 65,000 houses. This has
never been done anywhere else in the world before. The reinsurers see this as a unique approach to resolving, in a very practical way, the real difficulties following a major natural disaster. This model hasn’t been attempted anywhere else in the world, but is being successfully implemented, albeit with a lot of challenges, through the Canterbury area.

Over the past year we’ve also sought to lift the level of our customer performance, learning lessons from the past and engaging more positively with stakeholders across the board—agencies across New Zealand, including Local Government New Zealand, advocacy groups, businesses, and so forth. We have maintained very close and strong relationships with Mayor Lianne Dalziel and her council and offices in Christchurch, but also with Mayor David Ayers in Waimakariri and Kelvin Coe in Selwyn, and community groups. And we’ve sought to lift the level of engagement and alignment with all of those to assist the Canterbury residents—those who have claims with EQC—to be concluded.

I’d note, in relation to the value of the scheme, that it was recently conveyed to us that for the insurable losses in Canterbury—this was advice from the reinsurers internationally who support us—80 percent of the insurable losses in Canterbury were covered by insurance, reinsurance, or the national disaster fund that EQC had built up. The comparable figure for the Tōhoku region in Japan where the tsunami was was 15 percent of losses covered by insurance; for the Northridge, California, earthquake in 1994, 5 percent of the losses were covered by insurance; and in Haiti and the Philippines there was zero insurance and reinsurance cover. So the strength of the instrument is very real. Our challenges have been around delivering on our obligations.

The other thing that the commission has strengthened and continued over the last 12 months has been to continue as a funder of hazard risk research, particularly through geological and nuclear sciences—GNS, through whom we deliver the Geonet programme. In fact, when we had a joint board meeting recently with the GNS board, they informed us that we were the single biggest—EQC was the single biggest—supplier of funds to GNS as a Crown research entity. We’re obviously working through that research programme very closely with universities across the country—Auckland, Wellington, Christchurch—in a range of disciplines around natural disasters, and of course very closely with commercial entities such as Tonkin and Taylor, and a range of other leading firms who now have international reputations in this area.

Engaging further in the support to improve national hazard risk management is a really important strategic dimension for EQC already, but will be going forward. So we need to include promoting a more thoughtful consideration of hazard risk and decision making, particularly in relation to local government and land use, but also contributing to building national capability across a wide range of professional sectors such as engineering, planning and risk governance, and I shall be addressing the New Zealand Society for Earthquake Engineering at their annual conference again shortly.
So we’re putting a lot of effort into working closely with stakeholders, which really leads on, also, to the review of the EQC Act, which I know has been foreshadowed in the past. Our expectation is that it will proceed further down the track this year. There are an enormous number of learnings in that space, and a lot of entities, domestic and international, I think, will have counsel to offer about how we can learn from what has happened in Canterbury.

So just turning to Canterbury, obviously there’s still quite a bit to do, to complete, in Canterbury, but, as I say, we have completed in the home repair programme 65,000 houses, dwellings, with about 3,000 to go. We are heavily engaged now, also, in actually downscaling our operation. We did grow from 22 staff before September 2010 to about 1,800. We’re now down, I think, to about 1,000, and by the end of the year we’re only going to be several hundred. So for the board and management that is a major challenge as work concludes and staff move on to other roles. We’re taking a proactive role in relation to release and retention strategy and supporting staff to move on to new opportunities.

We’re also, of course—in the last year, when we last appeared before the committee, we had a large backlog of OIA requests. I’m pleased to report, as I think we have in a written manner, that that large backlog of OIAs was cleared by the end of April, as we had foreshadowed and promised. We currently meet all ongoing OIA requests within the statutory frame of 20 days, and the average term for response is 13 days, which I think compares very favourably with most other agencies. We have a 98.55 percent compliance rate with the law in that area.

So we increasingly need to turn our minds to the future, capturing the lessons of Canterbury, both from existing staff but also from other players, and drawing those into the redesign of EQC’s strategy. Our business vision and values, but also our operational mechanisms, are a key challenge for the board going forward. As I mentioned, the Act is going to be reviewed, so what EQC insures, the structure and extent of EQC’s cover, how we price our insurance, how much reinsurance we buy, what the Government’s or the Crown’s risk appetite is, the legislation covering our set-up and operations, and financial management of the Crown’s risk exposure are all very big topics, which will be covered not only through the review, I expect, but also ongoing daily business for the board of the commission.

I’d like to conclude by placing on record the gratitude of the board for the work of Ian and his senior leadership team and the staff, and also for our critical partners in delivering the Canterbury Home Repair Programme, Fletcher Building. We’ve had great support from the chair, Ralph Waters, and Sir Ralph Norris, and the CEO, and the team on the ground—Graham Darlow, Michele Creagh. We’ve got literally thousands of contractors working in that space, and we’re working very effectively with them to deliver. Obviously, there are challenges. Obviously, there are individual cases which we have to grapple with as best we can, and we are doing that. But, you know, we’re strongly committed to concluding as rapidly as
possible, and we will have most of the home repairs done by the end of April.

Bennett Just before we start questions, I'd just like to thank you, Sir Maarten and Ian—you're very generous to your CEO, but also to your role as well. I think as a team we all understand the complexity and the size of the challenge that you’ve faced, and when you put it in context to those other countries, Japan and California with their reinsurance and insurance, the scale of what you’re having to do is massive. So we do thank you for that, and we look forward to you continuing in that role and doing that work.

Dyson Thanks for your presentation. I've got three questions just in the first round. First of all, in terms of the customer services and interaction that you measure against, your target for satisfaction in that output is 70 percent. So that's the first part of my question. You're aiming quite low. I would have thought 70 percent of people to be satisfied with their interaction with the commission doesn't seem to be a very ambitious target. And despite that, in Canterbury only 33 percent were satisfied with the interaction. I think that's pretty awful. I have raised it with you in the past directly, and I haven't seen a lot of improvement, to be honest. Certainly there's no improvement reflected in the outcome. So what I often detect is quite a defensive response, and I think these figures, which are your measures that we can hold you account to, mean that you're not up to the job in terms of customer satisfaction. What are you doing about it?

Wevers Well, certainly we have had discussions. I've had them with you, with other members, and local interests. It has been an enormous challenge. The board, I think it would be fair to say, Ian, raises this matter at every board meeting. The amount of effort that has gone into redesigning customer engagement processes, improving the handling of individual claims, is ongoing and consistent.

It is true that we have a range of measures for measuring customer satisfaction, both Canterbury-based and more widely. They are volatile. As we've gone on, of course, we are now—even though the numbers are small, they're very difficult cases. We entirely understand that there have been frustrations. That is a matter of concern and of no satisfaction to the board or management. But Ian might be able to talk about the current—

Dyson Sure. Before we do that, would you be able to send to the committee a written outline of what changes you made, in terms of your, as you described it, redesigning of customer engagement?

Wevers Yes, certainly.

Dyson That would have been helpful, as a local Canterbury MP, to have been advised about, because—

Wevers Some of this was covered in the media in relation to the LSI report. There have been significant changes in business processes.

Dyson OK, well, process engagement is what I'm—

Simpson And it's work that continues, so we'll always aim to continue to improve engagement with customers.
Maybe coming back to the original targets, the 70 percent level is a target we’ve held for some time. So we could, in terms of a whole range of different events—I think it partially reflects that people who’ve been affected by any form of natural disaster or incident, no matter how large or small, are hoping to get an immediate response, something to get their lives back on track immediately. We can’t offer that. So that’s the drive for this 70 percent in terms of where we set that—

Dyson Sorry, it’s 2015.

Simpson No, but in terms of why the target was set at 70 percent. If you’re looking at even a large landslip, it can take years to get that resolved. So there’s something around the expectations of what we can offer, which we do need to work on.

In terms of the current level at 33 percent, that’s largely because it’s a measure of the customers who’ve just had their claims settled. And, of course, those customers have been waiting 4 ½ years since the first earthquake, 2 years since the last of the big ones in December 2012, and therefore that number, despite all our best efforts, probably won’t improve, even though we’re making significant steps to try and improve.

I’d also say that our ability to respond to people in Eketāhuna and Cook Strait showed some of the learnings. So we’re giving more certainty from the start, they knew when the assessors would be in town or in their neighbourhood, the assessors can talk to them about all aspects of the claim rather than three separate conversations around content and land. We’re working with local community groups from the start of the process rather than trying to build relationships half way through or towards the end. So we are continuing to learn and improve, and it’s an area that, I mean, absolutely we recognise we need to do a lot better, and we’re designing a better organisation to do it better next time round.

Dyson So in terms of other measures, you have a customer repair satisfaction measure which I’ve heard you refer to, because the numbers look better in that, so, you know—

Wevers Well, they don’t look better, with respect; they are better because they’re measuring different things. The 30 percent, Ruth, if I may, is for people who have just finished now, 4 years later. The measure for satisfaction with the actual repair—our problem has been the pipeline of getting people actually to the point of repair.

So what we do with that measure is we say: “Given the nature of the repair you’ve had, how satisfied are you with that?”, and the numbers are strong.

Dyson So my question is: in previous briefings to the committee, you have alluded to the fact that there are a number of people on the EQC claims database who were excluded from being surveyed. They had a tag against them: “Don’t call this person.”, and that then flowed into: “Don’t survey this person.” Cynical people might say: “They’re pretty grumpy with EQC, so we’ll put a tag against them.” Of course, you said that wasn’t the case; they
just didn’t want to be contacted and asked questions. I want to know if the survey you’ve just referred to has those exclusions still in it.

Simpson The UMR survey? I’ll just check. No.

Kettle We actually looked into what was a very small number of clients and—

Dyson So you have no exclusions in the database that UMR used for that survey?

Kettle The exclusions were around some complexities around whether the claims were opened or closed for this survey, that is simply a sample of the customers whose repair was completed in the last month. The UMR survey—what it doesn’t survey is customers who are in the repair programme because the UMR survey looks at a sample of customers once the claim is closed, and the repair claims have not been closed yet.

Dyson OK, I’d just like a pretty straight answer to my question, please. The survey of customer repair satisfaction, which you’ve alluded to, which has got a high level of satisfaction, does it have exclusions in the database used for that survey?

Simpson No.

Dyson No exclusions at all? Great.

Nash Sorry, you said that in the case of a landslide it may take years to resolve. Really?

Simpson So yeah—there’s a landslide. I can’t remember the location now, but there’s a landslide affecting, I think, a dozen properties—

Wevers In Brooklyn.

Simpson No, not in Brooklyn; a separate one to the south. It’s a large engineering undertaking, so we’re helping the homeowners to build a massive retaining wall pinning back basically a large part of the suburb. That’s a huge engineering undertaking. We need to drain water that’s causing the landslide in the first place.

Nash Were you just being a little bit flippant when you said it takes—

Simpson No, the repair has been under way in terms of engineering, investigations, and repairs for a number of years, and the residents in that area are really happy that we’re helping them actually keep the land stable and keep it in place. We’re not talking about a small step at the end of the garden; we’re talking about a huge engineering undertaking to pin the slope back.

Scott You’ve got 33 percent satisfaction. Do you think your 70 percent target is too high given what you’ve just said about the slip, given, you know, I’ve had a similar experience—a slip down the back of my place. It takes forever to happen. I’m, you know, annoyed. Is your 70 percent too ambitious?

Simpson Based on this event, clearly we haven’t met the target.

Scott And the slip event that you just mentioned.

Simpson So I think we need to look at how we set expectations. My personal view is, and maybe I’m being too aggressive, but rather than change the satisfaction target, do more work to help to explain to people what they can expect
when we have one of these largest in the world-sized events and how long things are going to take to set expectations better before it happens.

Sage Thank you. LSI—Linking Strategy and Implementation—did what they said was a “Comprehensive review of the customer interaction model at EQC to understand key issues and gaps …” last November. In that review, there was a deliberate decision to exclude EQR, who’s responsible, of course, for all the repairs. Why was the decision to make to exclude EQR given the increasing number of concerns about the quality of repairs?

Wevers Well, I wouldn’t accept the assertion about increasing concern about quality of repairs, but we’ll come back to that later.

Simpson It was a report for EQC staff in terms of our claims handling process, and I think the prior question actually frames that rather well. So the satisfaction with level of repairs is at 85 percent. It’s higher than other surveys I’ve shown across the country historically outside a natural disaster. We’re really pleased with that. We were focusing on our systems and process, which people are less satisfied with to quite some margin, and how we can improve those now and for the next event as it comes through.

Wevers The LSI report was commissioned by the board because we know we’ve got to do better. These are experts in customer service management issues. We tasked them to take a really hard look at how we could improve. That’s the board’s responsibility, and they came away and they said: “These are the areas that you can improve.”

In relation to home repairs generally, we have more data about the 128,000 houses that have been damaged in Canterbury than any other entity in the country. I note, for example, a recent article in the Press saying that one-third of final building code inspections of new homes in Canterbury in the last 6 months have not met the grade. The level of concern about home repairs that we have is real. We have always said, as L V Martin said: “It’s the putting right that counts.” We are very open if people are not satisfied. But the notion that somehow our repairs are in isolation to satisfaction or dissatisfaction with building across other entities is not sustainable.

A third of the new houses in Canterbury are having consenting and quality issues. If you look at the research done by BRANZ, the Building Research Association of New Zealand, they did a survey in 2011. Seventy-one percent of all people who undertake repairs or new house builds in New Zealand have to get the builder back to fix things. This is a much wider issue than just the question of whether we, with Fletchers and their subcontractors, are able to satisfy the customer all the time. There are lots of things that are not quite right. People come back and fix it. That’s our commitment.

Sage So will you do any examination of EQR?

Simpson We have—as part of our internal audit, we audit EQR. We work with Fletchers’ audit teams to audit the programme of the work that’s done. We have quality assurance processes in place to monitor the quality of work that’s done. So it’s just a normal part of running a large project. We do look
at the quality of repairs. I mean, the one thing I would say in terms of requests for remediation work, there are currently about 2,500 requests out of 65,000. That's less—that's about 4 percent. I'd argue that's far better than you'll see in normal home repair activity across the country. But, as Maarten said, we will stand right behind every repair. Either the contractor will go back if there's a problem or we'll get a new contractor to fix it.

Prosser You’ve actually answered some of my questions in response to Ruth, because I happen to be one of those dissatisfied customers. Don’t take this as criticism; it is actually a question. Knowing, as we do, the sheer unprecedented scale of Canterbury, the EQC could not have been staffed or resourced up to that level and couldn’t maintain that level of manpower or person power. We had some—we were lucky; we only had cosmetic damage through all the events. There was nothing structural, so we were at the lower end of the priority scale, I understand that. But in terms of the availability of resources for EQC and the number of people that you are able to draw on, we had 6 weeks or so before we could have first inspection. The guy who turned up was—one was an ex-cop, one was a cabinet maker; that was the nearest they could find to a tradesman—

Bennet Richard, just before you continue, you might want to—it’s not probably the best idea to bring in personal situations to the committee hearings.

Prosser Well, I get that point; it’s just to illustrate—we’re talking about numbers and we’re talking about surveys and statistics and everything else, and reports, and everything’s highfalutin and it sounds good. But there are an awful lot of people who are in a very frustrated position. And, OK, our claim’s finished now, it’s all done and gone. What I’m getting to is that there didn’t appear to have been any structures in place for the ECQ to be able to draw on industry professionals to help with the inspection process. The other issue was in terms of record-keeping and so forth. Some of the initial inspections were lost, claims got rolled in together, and there was obviously staff turnover.

What I’m asking is: have you made arrangements so that you do have the ability to call on industry professionals, contractors, tradespeople, to draw them in when you need them in a hurry in large numbers. And also, have structures been put in place so that the files that you keep—the records that you keep—are able to make sense to new people as they come on because you’ve got staff churn, you’ve got temps, you’ve got turnover, those sorts of thing. So the system itself—you can plug people into it, you can call them in as you need to and plug them into different parts of that of your operation, and have some consistency of outcome of going forward, so that if we do have another event of this scale, you’re not going to wind up with literally tens of thousands of people who, you know—it’s a relatively small claim, but we ended up being out of pocket by about 10 grand. In the grand scheme of things that’s no big deal, but I think a large number of people would have simply tossed up their hands in the air, like we did, and said: “OK, just got to suck this up”.

Wevers Well, we understand entirely the point, and I’ll ask Ian to talk about the preparations that were made, but I just observe to the committee, as I think
I did last year, this is the fourth-largest global event—insurance event—in
global history. And as I mentioned before, I mean, if you go to New
Orleans now, there are 36,000 houses that are untouched, you know, since
2005. The EQC board in 2008 modelled a scenario for what their worst
likely event was. That was a proper thing for the board to do. All of the
investigations through GNS, they suggested 150,000 claims in Wellington
would be the most likely scenario. We got three-quarters of a million
claims—five times larger—in Canterbury. If we had a volcanic eruption
which started in Auckland tomorrow—it might not happen for 500 years—
if it started tomorrow, we would have a million residents at risk.

The Crown organisation—I mean, if that started immediately, you simply
can’t foresee that. So that’s the challenge we’ve got. Obviously, we have to
do better. But we did have preparations; it’s just they were overwhelmed by
literally by the scale, against what the scenarios had been that the
commission had planned for. But Ian could tell you about what those
arrangements were.

Simpson

Sure, absolutely. So again back to the size of the event. It was 15 percent of
our GDP. The Japanese earthquake and tsunami were 3 to 4 percent of
their GDP. So we’re a small country that’s going to have huge events,
hopefully very rarely. And that means it’s not an EQC issue around
resource; it’s a national issue. There are not the loss adjusters in New
Zealand qualified to respond to that scale of event. Pre the earthquakes, we
had—yes, the famous story—22 staff, but we had 24 to 25 qualified loss
adjusters on retainer. We had a couple of hundred tradespeople, or retired
tradespeople, on regular once-a-year training with us to try and build that
workforce, and they came in and did a great job initially, but there just
aren’t—we also had a training programme to encourage and bring on loss
adjusters in New Zealand because actually the private sector was reducing
the workforce. So New Zealand does not have the skills in place.

So what we’re doing is a number of things—first of all, making sure we stay
in touch and building an alumni of the people who have had experience
through this event; working now to make sure we retain people who’ve got
the experience in terms of flexible contracts going forward; working with
the private sector to better share the load and better share the resources
when we do have another event. And in terms of systems, I mean, we’re
looking at absolute transformation of systems in place.

The reason we had lost records was we had no electronic in-field data
capture in the field. Everything was written down. I remember after the
February earthquake, walking through—we were taken through the middle
of Christchurch; we’d had a temporary office above one of the stores. The
files were literally blowing down the street because it had been damaged by
the earthquakes. So now we’re looking at more in-field capture in terms of
electronic capture, better systems, and then, looking forward, having a step
change in terms of systems so that people can actually see their own claim
in the system file—better visibility. So yes to all of your questions, basically.
Wevers  The redesign of it, including on to a full electronic platform, is a key strategic priority, so we’re resilient; we can host it outside the area that might be impacted. That’s one of the big learnings.

Ross  Good morning, Maarten and Mr Simpson. You touched on the reinsurance during your introduction. Could you just go through it in a bit more detail for us the impact that Canterbury has had on your ability to secure reinsurance? It’s obviously a very important part of EQC’s requirements to have reinsurance. Can you just go through that in a bit more detail for us please?

Simpson  Absolutely. The Canterbury earthquakes have been an opportunity for New Zealand to demonstrate how it responds to these large events and, I think, internationally, the response is viewed very favourably—from a New Zealand perspective; I’m not talking necessarily about EQC. From our point of view, our ability to set up the home repair programme to control inflation through the programme, to make sure that the funds are being invested in property to rebuild probably better to where it was before, mean that we’re remaining an attractive place for re-insurers to do business. And the proof of the pudding is that we now buy almost double the level of reinsurance that we did before the earthquakes because we demonstrated that New Zealand can handle these large events. We’ve been as transparent as we can be through that process in terms of where we’re doing well and where we’re have issues.

Ross  You mentioned internationally. How do you benchmark your response versus international best practice? You mentioned that you’re perceived to have done well internationally. What agency or organisation do you use to measure?

Simpson  I asked the same question of the chairman of Lloyds of London recently, when he came over on a visit, and the answer is—there is really—

Wevers  No benchmark

Simpson  Everything’s different. But if we look at—I mean, Japan’s often used as an example. The Japanese authorities settled a million claims in less than 9 months. It was an amazing piece of work. However, that’s the cheque going out of the door. If you look at the Economist article from 2 or 3 weeks ago, there are still 180,000 people still in temporary accommodation. Of the 22,000 homes that the Government was looking to build, they’ve built about 3,000 of them—14 percent—in the 4 years since the earthquake.

So recognise that from a claims settlement perspective, we are slower than overseas markets. But from a recovery perspective, in terms of people getting back into their homes, we can’t find another comparator where it’s moving as quickly and we’re doing that while maintaining levels of inflation in the rebuild. Given it’s 15 percent of our GDP that’s actually in line with broader national inflation.

Ross  Have you picked up any learnings from international cases like Japan which you could consider to implement if this was to happen again?
Simpson  We did right from the start. So when the first earthquake hit in September 2010 we had a team—or a couple of people—over in Chile looking at their response to the earthquake they had over there. And so we settled about 50,000 low-value building contents claims using the fast track process that we’d picked up from the Chileans. So there are aspects of what we do that we’re absolutely—we’re always sharing what we do. We’re always looking for new information internationally.

Wevers  The big strategic learning for me is the critical importance of having robust and well-governed private insurance markets in tandem with the Crown. We had the head of the California Earthquake Authority in New Zealand in October 2 weeks after the Napa earthquake. I’d never met the man before—Danny, I think his name was—and I said: “It’s really great you’ve come when you’re really busy.” He said: “No.” I said: “Why not?” He said: “We’ve had 400 claims.” I said: “400 claims—how’s that?” He said: “Because nobody buys insurance.” California is the only place in the US where you can buy earthquake insurance but nobody buys it because unlike us it’s not compulsory; it’s not tied to fire insurance. The consequences, the premiums, are very high.

In Queensland, in Brisbane, if you have a property on the river, I’m informed you pay A$12,000 for flood insurance, even though we know there’s going to be another flood in Brisbane. So the consequence of that is people don’t buy their insurance, which means you then have all these moral hazard questions.

We have very high rates of insurance penetration in New Zealand that bring, on the back of it, very high rates of reinsurance backing. The reinsurers are auditing us every couple of months, and they are comforted and they’re continuing to reinvest. But there are only 15 countries in the world that run a national disaster insurance scheme like EQC. Australia doesn’t, so in Australia you can only buy disaster insurance by private premium, and it’s very, very expensive. So when something does happen, there is no shock absorber to provide the fiscal resources for the rebuild. That’s the biggest learning for us, so that’s why the review of the Act is so important, to make sure that we maintain the right mix between private capital and risk-taking, backed up by a public scheme. But the challenge, as always, is how you implement the claims, and that’s where we’ve really, really struggled, because it was just so big.

Bayly  Just a supplementary for Jami-Lee Ross’s question on reinsurance. You’ve taken up $3.6 billion. What’s the pricing been like? Have you been affected by the pricing?

Wevers  Better pricing than we had before 2010.

Bayly  And you put that down to the way that we’ve managed—

Wevers  Well, no, actually—

Simpson  I’ll need to correct you on that.

Wevers  It’s better than what it was last year.

Simpson  Yes.
Wevers But it’s higher than 2010, so the price is coming down.

Bayly So why might that be?

Simpson 2010 happened after a string of international—it’s a global market, obviously, so we had the Chilean earthquake, which was an outlying market that people didn’t really expect.

Wevers Japanese tsunami.

Simpson The Japanese tsunami and earthquake was off the scale when it came to losses that were expected by the market. Then our earthquakes arrived, a sequence of earthquakes, the second one of which was far more destructive than the first. From little old New Zealand generating some of the biggest earthquake losses ever seen internationally—just, basically, caused the market to think its pricing overall, internationally. Prices changed because reinsurers were starting to fear they didn’t understand the risks they were covering.

And also it’s a market, so there’s this old-fashioned notion of payback, that people expect more. Our reinsurance rates went up three to four times depending on the risk layer that we were buying immediately after the earthquakes, and they’ve been coming off at roughly about 10 percent a year ever since.

Bayly And so there’s no particular premium for New Zealand in that reinsurance market? They haven’t re-evaluated New Zealand—

Simpson Yes. Through the research that we’ve done over the years we’ve helped to build specific New Zealand risk models and loss models. The reinsurers take a very detailed view of every market they go in to. It is a unique New Zealand price, but the overall level of pricing across the industry moves with the level of international events.

Wevers And the other thing which sort of reflects EQC’s role is—if you think of the four Rs of disasters, reduction through to recovery—we spend through GNS and other professors and other researchers that we support. A lot of information, really good data—there’s more data about the Canterbury earthquakes than any other sequence of earthquakes in the world, and that data, through GNS, is shared with all the international reinsurers. They have their really serious boffins going through those models, so this is peer-reviewed and tested all the time. Our models are now leading-edge internationally.

In fact, we had a professor from Cornell here recently who was saying that they’re redesigning pipe manufacturing standards in the United States on the basis of the data that they got out of Canterbury. So that informs the decisions and the risks that the reinsurers are willing to take on. That’s why we have to keep investing in that education research area, because it maintains our credibility in the financial markets as well.

Cosgrove How much time have I got for my line of questions?

Bennett It depends on who else wants questions. I’ve got other people asking questions, so you’d better use your time—
Cosgrove The Labour Party’s had two questions since we began. You’re aware you commissioned an independent report, which you placed on your website in the first week of February, is that correct? By David Rutherford—part of it?

Wevers By who?

Cosgrove David Rutherford—part of that. There was also an independent report on your performance.

Wevers Which report are you referring to?

Cosgrove The one you put on your website on the first week of February.

Wevers I don’t know every report that goes on the website, Mr Cosgrove. Which one are you talking about? Could you be more specific?

Cosgrove Well, I’ll be specific. There was an article—and I’m sure people commented on it—that a report was buried on your website on the first week of February of this year. It was reported on the Christchurch Press on 12 February, and it noted it was an independent report

Wevers This is the LSI report? We’ve already discussed that with—

Cosgrove I had an emergency, that’s why I’m late, so we’re going to discuss it again. And that report found—it’s a quote—that your structure was suboptimal, that your management was substandard, and that the interactions with homeowners “lacked consistency, timeliness, and empathy, and information management was insufficient and ineffective. Customer interactions have become secondary and have not met expectations by customers.” That’s a reasonably damning report that you yourselves commissioned. You buried that on your website and, as evidence of that—

Wevers No, I object to that, Mr Chair. We did not bury— [Interruption]

Bennett Mr Cosgrove, be quiet. The chair has objected to that and we take that on board. Do you want to say anything, or do you want to—

Wevers Yes. This was a report, Mr Cosgrove—as we mentioned in response to a previous question—that the board itself commissioned to have a very hard look at our customer service model. We know that we have been overwhelmed by the events. We’ve had a lot of feedback, including from local members and the council, about what we might do better. That was the diagnosis we had from the doctor looking at our customer service model. It was made public. It wasn’t buried. There was an assertion it had been put on the website in the dark of night in the Christchurch Press, as well. That is completely incorrect.

Cosgrove No, that was my quote; it wasn’t the report. The reporter actually says that it wasn’t—well, anyway, I’ll give you the evidence [Inaudible].

Can you answer this question: the ombudsman strongly advised you place a media release, and I see you’ve put a media release out about the 70th anniversary of EQC and all the wonderful history of things like this. This took this journalist, Cecile Meier, an inordinate amount of time to find. Why didn’t you do what Beverley Wakem suggested and make it widely public, as you have done with other reports? And if so, why did she criticise
you for the way you released it? No media release, nothing; no comment, nothing.

Simpson It was a report that we commissioned, along with a whole bunch of other work we did, to improve the way we do things. We’d spoken to our customer advocates group, CanCERN, other community groups—we’d taken them through it beforehand. We took the ombudsman through it beforehand. We talked to a range of people about what the report said and what we’re trying to do. It wasn’t designed to be part of a press campaign or a press release or—it was just something we do. We have a whole bunch of reports out—

Wevers Different reports go on the website every week.

Cosgrove Do you disagree with Beverley Wakem when she said “she strongly advised you to release the report publicly and was disappointed in the very low-key launch”? Is she wrong?

Wevers No, I don’t disagree with her; she may well have said that.

Cosgrove She did say that. Can you tell me who’s right and who’s wrong on this point: the report seems to suggest that there are wide-scale, major changes that need to occur with EQC. Would that be correct?

Wevers We agree with that, and a lot of them are under way.

Cosgrove OK. Mr Brownlee has said, in his review that’s sort of ongoing, that he feels that “there are only minor changes that are required to the EQC model”. Who’s right?

Wevers Well, I think they’re different questions. As I’ve just been outlining to members of the committee, I think what the Minister has been talking about, and certainly what we support, is that the EQC model—the broad planks of the EQC model—are very strong. We are unique internationally in the level of insurance cover that we can provide for national disasters.

So the question about whether we should have an EQC system, for example—I note that there was a report in the Press which had that subeditor’s line saying: “EQC survives review”. I don’t think that’s a correct portrayal. I think all New Zealanders would expect that the sort of support that’s been available through EQC for them in their areas, if there were a volcanic eruption or a landslide or another earthquake—heaven forbid—were still there. This is unique internationally.

So having a public-private partnership, which was established by the Parliament of 1945 to share the risk and manage the response to earthquakes, I think, is wrong. There are obviously changes that can be made, and I think that’s what Mr Brownlee was talking about. And the board fully agrees with that. In fact, we’re encouraging changes to the current legislation.

Cosgrove So you agree that your structure is suboptimal?

Wevers Yes, absolutely.

Cosgrove And you would agree that your structure requires some major change?
Wevers Absolutely, as we agreed that the Christchurch City Council and other councils need to take a very different view of land use. One of the tragedies of Christchurch is that successive councils have approved subdivision of land which was known for geological reasons to be not sound. But the cost to the taxpayer and the commission is literally billions of dollars. So we could look right across the country now at areas where we’re living with a legacy of local government planning decisions and corporate infrastructure decisions which are exposing New Zealanders to a risk.

Cosgrove I think we might be at cross-purposes. I accept some of it—

Sage So what do you think is needed to get councils to shift from that approach of continuing to allow subdivision in potentially natural hazard areas? Nick Smith said he’s going to put natural hazard in the RMA, but is there a need for national policy guidance? Would that help?

Wevers As you may have seen in our statement of intent last year, the commission has a view, the board of the commission has a very strong view, that we can contribute much more to national hazard risk management. The Government has announced a National Science Challenge about improving resilience to natural hazards. We’re a contributor to that. It’s to be hosted by GNS. I don’t think there’s any difference of view at all among the institute of engineers, the earthquake engineers whom I’m addressing in a couple of weeks, the architects, Local Government New Zealand with whom we’re engaging, that we can do better. And this is not just about land use but around building standards, around engineering standards, about resilience. This is a major national challenge. We could easily get thrown off our national path for a long time if we don’t do better. We’re well placed internationally—we’re very well placed—but we know that we’re going to have earthquakes. There is going to be volcanic eruption in Auckland. I can’t make it plainer than that. There will be a major earthquake in Wellington. We just don’t know whether it’s going to be tomorrow or in 300 years’ time.

Scott You mentioned earlier that you picked up another $600 million to create a $3.8 billion backstop. Can you give us some reassurance or some understanding of how you determine the number? And how do we know you’re not paying too much—

Wevers Or too little?

Scott For the $10 billion that you’re going for?

Wevers It’s a very tricky question.

Simpson In terms of the reinsurance, we’re basically buying as much as we can. So the Natural Disaster Fund will be exhausted by the Canterbury earthquakes. We had $6 billion in investments before the earthquakes. That will be used up in our response to the earthquakes. And so now we’re effectively protecting the Crown balance sheet through our reinsurance programme. So what we’re doing is we receive about $280 million a year in premium income from customers. We’re looking at the costs we’ve got for ongoing
events across the country, and the remains we invest in reinsurance to get the broadest possible range of protection.

Scott

So your constraint is your income that comes in off the premiums?

Simpson

Yes, absolutely.

Wevers

But it is, as Ian says, a national fiscal strategy question, because EQC is a prime protector of the Crown balance sheet. Through our programmes, we’re going to have losses which we’re going to meet. In Canterbury we’ve got about $11.5 billion. If we didn’t have EQC, that would flow straight through to the Crown balance sheet in some form or other, with all of the implications for exchange rates, credit ratings, interest rates, and so forth.

The question of how quickly the fund is rebuilt is a really big question. The Crown might choose to put some money in as a short term measure. Currently, if we were to have another major event, our reinsurance cuts in at $1.75 billion. So the first $1.75 billion would come to the tax payer until such time as we can build up our fund to cover that. Fortunately, in 2004, we had $6 billion in the fund, so there was no call on the Crown, but at the moment we are exposed.

Cosgrove

If I can go back, I think we’re at cross purposes, because we’re not actually talking about the financial stuff or how much reinsurance for a large-scale event. We’re talking about an event which is 4 ½, almost 5, years on and a report which you have commissioned which is quite damning of your interaction with your clients. You’d accept that?

Wevers

Yes.

Cosgrove

I’m not talking about all that other extraneous stuff—

Wevers

We accepted that, Mr Cosgrove, I recall at the last meeting of the committee, and we apologised for it.

Cosgrove

OK, well, I’m sure we’ll feel warm in our old age with that. Could you tell us what you’ve done between the last meeting and now to improve that, given you released the report in February—we’re a year on—which is absolutely damning on your client interaction.

Wevers

I’ll invite Gail Kettle, who’s the general manager of customer services.

Cosgrove

So last year there’s an apology, this year there’s a damning report. What’s changed?

Kettle

We’ve been making a number of continuous improvements, but in response to the report itself, which we were talking to LSI. [Inaudible] We’ve run a couple of initiatives. We’ve had a team run through all of the customers who had an outstanding claim who have been identified as vulnerable. So those are the people who have either health or elderly issues and some definition around that. We’ve gone through each of those customers’ claims, and accelerated the claims either to resolution or, where they’re unable to be resolved, which is about 40 percent of that group of claims, we continue to monitor. So that’s a more case-by-case management type of approach than we’ve taken for the, as Maarten said, 700,000 claims we’ve had to deal with in Canterbury.
We’ve got a plan in place now, and we’re making some changes in the teams that deal with all our customers. We’ve put a customer team in place which encapsulates all of the customer-facing teams in EQC, so that that team and the manager for customer services in that group, part of my group, is responsible for making the additional changes that LSI recommended and puts those in places.

The other areas that we covered, before you were able to make it, Mr Cosgrove, to the committee were that we work far better now with local community groups than we did at the start. That’s one lesson in place for the Eketāhuna and Cook Strait report. We work upfront with those community groups, we’re better aligned with insurers around joint assessments from the start, we give customers far better certainty from the start about when our teams will be in their part of the town, in terms of when they’ll be assessed. They’ll have one conversation about contents, building, and land rather than three separate conversations. There’s a huge list of continuous improvement that we’ve put in place.

Because again, these are practical things. I’m not really worried, no disrespect, about NGOs and insurance. The report says that staff interactions with homeowners lacked consistency, timeliness, empathy, information management was inefficient and ineffective, customer interactions have become secondary and have not met the expectations of our customers, the report said. A year ago we got an apology. I’m not really worried about that. A year on a report that you commissioned was released in February, and these are very down-to-earth, practical things in terms of interacting with customers, with clients. So very little has changed. One could hypothesise it may have got worse, but I don’t know the data behind the report.

If I can jump—the data in our report was LSI talking to me and our staff about what we think is wrong with our process.

So if your staff think that, what do you think your customers might?

We know what the customers think.

And that’s why we were at this cross purposes earlier on about the structure of the organisation versus structure of the scheme. So I think we’ve agreed the scheme has performed particularly well. We don’t need to become a reinsurer, like you have in California. That wouldn’t work for New Zealand—

So a year on—

Let him answer the question.

The structure of the organisation is something that has evolved over the 4½ years since the first earthquake, the 2 years since the last big one in December 2012, over guidance that we—our Act works completely differently. We have apportionment we cover each individual event over the implementation of red zone; over the implementation of TC1, 2, and 3; over us deciding to repair homes, which was never envisaged when our original systems were put together. So we’ve built—
Bennett  No, Clayton, be quiet.

Cosgrove  Do you need to change instruction to implement timeliness, empathy, sympathy, and efficiency?

Bennett  You don’t have to answer that. Andrew Bayly has a question.

Bayly  I just want to actually continue this a little bit. The issue around engaging with the community and how you respond to customers or clients, whatever you call them, is obviously really essential and important work you do. I just want to understand about your engagement with community groups. You’ve mentioned it a couple of times. So what has been the process to engage with community groups as a way to—obviously, you’re wanting to deliver better services in more appropriate ways, so I’m really keen to understand what you have done around that.

Simpson  I mean, Gail was instrumental in helping us set up a customer advisory group, which has representatives from Age Concern, from other community groups, from CanCERN, and other groups in Canterbury just to help us talk about the interactions we’re going to have with customers. Excess is an example of something we’ve got coming up, so we work through with the group on the messaging we’ll be giving, the options we could have, helping to get some more direct feedback from the community in terms of what would be happening.

Some the other events though, like in the Cook Strait event and actually Eketāhuna as well, we went to the local council and asked them right at the start: “Tell us about the groups that are out there so we can work with the community right from the start.”, rather than trying to roll our machine into place and just, you know, doing things our way—let’s understand locally what’s happening and be able to talk to people directly right from the start of the events.

Wevers  One point I might, Mr Chair, offer is that there’ve been a lot of decisions that have been made around the earthquake which are not actually EQC decisions. So we talk about red zone, TC1, TC2, TC3. There’s recently been a court case which has been resolved where a client sought payment from EQC for a house which had been declared uninhabitable by a section 124 notice under the Local Government Act from the council. They sought a full payout from us. We said: “We can’t pay you. Your house is not damaged; it’s just that the council has said you can’t live in it because it’s at risk of rockfall.” That went to the High Court? The Court of Appeal?

Dyson  Just “You can’t live in it.” is not quite the right phrase, given what it meant—

Wevers  But the decision was made by the council—is my point, Ruth.

Dyson  Yeah, I agree with that.

Wevers  So there was a lot of media saying: “EQC is not paying out.” We can only pay for earthquake damage. It has to be assessed. That went right to, I think, the Court of Appeal, and the Court of Appeal found—those are 124 notices, so that means that it has to be handled by the insurance company, not by us.
So some of the customer issues that customers have dealt with have legitimately been ours and we need to do better, but some of them around red zone, TC1, TC3, a whole range of other things—we are an obvious face of the recovery effort in Canterbury. Some of the issues that people bring to us are not matters that we are statutorily empowered to resolve.

Bennett Thank you very much, Sir Maarten and Ian. We appreciate your time and keep up the good work, OK?

**conclusion of evidence**
2013/14 Annual review of Education New Zealand

Report of the Education and Science Committee

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Recommendation

The Education and Science Committee has conducted the annual review of the 2013/14 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 agency established in 2011 under the Education Act 1989 to bring together the various aspects of international education promotion, which were being managed jointly by New Zealand Trade and Enterprise (NZTE) and education counsellors in New Zealand’s overseas posts.

Education New Zealand’s goal is for the sector to be earning $5 billion a year by 2025. We note that this is a monetary target, not a student number target. Education New Zealand is not trying to double the number of international students in New Zealand, but rather to increase the earnings of the sector. Education New Zealand is also trying to increase earnings in other jurisdictions from exported education services, from about $100 million a year to around $500 million a year.

Education New Zealand enjoys strong support from the government sector, working with the Ministry of Foreign Affairs and Trade (MFAT), Tourism New Zealand, NZTE, the Ministry of Education, the New Zealand Qualifications Authority (NZQA), the Tertiary Education Commission, and the Ministry of Business, Innovation and Employment to ensure that its direction reflects Government policy settings. The organisation has about 80 staff, of whom 40 percent are based overseas, in 16 offices co-located with either NZTE or MFAT.

Education New Zealand has three primary roles: marketing and promoting New Zealand as a place to study; facilitating education exporters’ access to international markets; and undertaking education diplomacy, including discussions of free-trade agreements. The education diplomacy role is concerned with market opportunities for growth in the future. It involves building the profile of New Zealand education, and seeking to hone the sector’s competitive edge in a crowded global market. Education New Zealand has also had to help rebuild the international education industry in Christchurch, which was severely damaged by the earthquake.

Education is one of New Zealand’s top five export industries, and in the services sector it is the second largest. International education yields close to $3 billion in earnings and accounts for 30,000 jobs. Education New Zealand recorded revenue of $33.798 million in the year under review, and a $966,000 deficit.

Leadership statement targets

Education New Zealand’s policy guidance includes a market value target of $5 billion by 2025. The market’s value has increased over the last 12 months after some years in decline. Two years ago the New Zealand education industry was worth $2.6 billion; it is now worth $2.85 billion. Education New Zealand is confident that it can achieve its target, and that $5...
billion is a realistic goal. Last year, Education New Zealand produced a strategic “road map” for each part of the sector, after consultation with about 400 people in workshops and 100 individual interviews. The road map, which sets out a ten-year vision and the roles of all players, has been embraced by the industry.

We asked about the business capability of individual New Zealand educational institutions. Education New Zealand suggested that with more than a thousand institutions involved in international education, of which some 700 are schools with only about 20 students, there is real scope for sharing marketing. Education New Zealand is working on presenting institutions in regional groupings, to reduce costs for smaller providers.

**Regulatory environment**

We asked how Education New Zealand sees its role in the development of Government policy on visas, work rights, and legislative change. Education New Zealand said that, while it is not a policy development unit, it has forged strong links with relevant policy groups, and the International Education Senior Officials Group in particular. This group comprises chief executives from Education New Zealand, Immigration New Zealand and the Tertiary Education Commission, and deputy secretaries from the Ministry of Education and NZQA. Regular meetings ensure mutual understanding, and realism about what can be done.

**Perceived displacement risks**

We heard that the Ministry of Education monitors closely the possibility that domestic students are being displaced by international students. Most secondary schools cap the number of international students they take to avoid any tension with the local community. Education New Zealand has not seen any evidence of such displacement. Rather, evidence suggests that earnings from international education are being reinvested in the sector, improving physical infrastructure in particular.

Education New Zealand acknowledged that it falls to its organisation to familiarise the New Zealand public with the advantages of international education as an industry. Much income from international student fees is reinvested in infrastructure and resources that improve the educational experience of foreign and domestic students alike.

Education New Zealand emphasised that the mutual benefits were not limited to physical infrastructure in New Zealand schools and institutions. We heard that feedback from institutions indicates that New Zealand students enjoy an enriched cultural experience in institutions that host international students. Education New Zealand has in the past year established the Prime Minister’s Scholarships for Asia. More than 300 students have taken up these scholarships, for periods ranging from six weeks to two years. These scholarships confer the side benefit of establishing connections between the students’ original institution and their Asian host institution.

**Misrepresentation risk**

We are aware from anecdotal evidence that Education New Zealand’s overseas agents sometimes give advice that is not entirely accurate. These reputational issues, although occasional, have had a severe impact on the sector; and the support for the sector from the Government has varied from time to time. We will watch with interest the work Education New Zealand does to ensure that the information students receive is clear, appropriate, and accurate.
We heard that Education New Zealand monitors foreign media coverage for any negative publicity about foreign students in New Zealand. Education New Zealand recalled Australia’s experience of violence against international students from India, as a result of which the market had dried up “almost overnight”, and it has taken more than five years of careful repair work to restore confidence.

We recalled the problems encountered in New Zealand ten years ago with English language schools providing poor pastoral care for their largely Chinese student base. We heard that NZQA had consequently established a code of pastoral care, upheld via auditing. This had begun to eliminate low-quality operators from the sector, but it remains a work in progress.

We noted the perception that, at the time, New Zealand was recruiting at the bottom rather than the top end of the market. We were advised that Education New Zealand tracks the source countries of international students, and has since 2012 also run a valuation model which has started to determine the most valuable markets. This information is provided to institutions to help them focus their own efforts.

Education New Zealand told us it has established a “recognised agent” programme in conjunction with Immigration New Zealand, providing online training about life in New Zealand, rules and regulations, and information about New Zealand institutions. Education New Zealand does not carry out detailed monitoring or auditing of agents’ behaviour in the field. Rather, it makes its expectations clear to institutions, with whom agents have the closest relationship.

**New Zealand brand promotion**

We heard that Education New Zealand has designed marketing tools for use by schools and institutions, which are made available via Education New Zealand’s website. These resources have been well received by industry, and the emergence of a single New Zealand education brand is a welcome development.

**The New Zealand Story**

The New Zealand Story is an initiative to define the distinctly Kiwi attributes that make New Zealand society unique. It is intended as a framework for helping communicate New Zealand’s value to the world. The New Zealand Story shows that New Zealand is more than just its tourist attractions. It is intended to be a cumulative resource that encourages people to tell their own stories and develop the New Zealand brand. The New Zealand Story video has been translated into seven languages and is widely used in promotional exercises overseas. Social media form a crucial aspect of the campaign.

**Opportunities for growth**

**Market diversification**

We heard that China and India remain New Zealand’s biggest education markets. Korea is slightly in decline but remains an important market; Japan is important and growing. South-East Asia is a significant source of students, and there is huge potential in markets like Indonesia. Strong growth has come recently from Thailand and the Philippines, which have not been a traditional market. This may result from the growing number of Filipinos moving to New Zealand to work in the dairy and construction industries.

We were told that the United States of America is a high-growth market. Historically this has always been the case for postgraduate students, but renewed growth in the US economy seems to be stimulating the market for study abroad. There is some good niche
growth from Europe, but it has not recovered to where it was five or six years ago. Limited resources have prevented New Zealand from grappling properly with the opportunity presented by Africa. Education New Zealand has also determined that other markets offer potential growth, such as Turkey, Pakistan, Bangladesh, and Nepal.

**Gulf market**

We asked about progress in the Gulf market—Saudi Arabia, Bahrain, Qatar, Kuwait, the UAE, and Oman—and prospects for the region. Education New Zealand told us that despite a dip in numbers from Saudi Arabia after the Christchurch earthquake, a number of New Zealand institutions have been restored to the Saudi government’s approved list. Work with the Saudi embassy in New Zealand continues to help bring in more Saudi students. Small numbers of students come to New Zealand from elsewhere in the Gulf, but the major activity regarding this region is the export of education services. A number of private-sector consulting companies in the Gulf region provide advice on improving local education systems. New Zealand is well regarded in this sphere. A number of New Zealand institutions are also partnering with the Saudi government to deliver New Zealand programmes in the region. Saudi international student numbers are currently dominated by Saudi government scholarship holders, but Education New Zealand also hopes to increase the number of private students from Saudi Arabia. We noted that more than 50 percent of Saudi students in New Zealand are female.

**Latin America**

We heard that the Latin American market is becoming increasingly important. Brazil has been the major source of international students from the region, while Chile is an important market, and there are growth opportunities in Colombia, Peru, and Mexico. Vocational training and English language training are strong potential export opportunities in the region.

Strong government ties underpin the growth of a developing market like Latin America. When operating scholarship schemes intended to upskill their population, governments in Latin America often like to deal with another government agency at the outset. We were advised that the major impediment to growth in the Latin American market is poor air links. A lot of students from the region cannot get transit visas through the United States, forcing them to travel via Chile or other destinations. A decision by Air New Zealand or other airlines to enter the market would be very good news for students considering New Zealand.

We heard that Chile was a good example of relationship building, with a government scholarship programme that brought 200 Chilean teenagers to New Zealand each year to learn English and become familiar with our culture. The Ministry of Foreign Affairs and Trade similarly administers educational scholarships designed to develop good relations between governments and individuals. Education New Zealand ensures that its approach is consistently aligned with Government priorities.

**Republic of Korea**

We are aware that requirements that young children travelling to New Zealand for educational purposes be accompanied by a parent have constrained the Korean market. However, more English language camps have been provided in Korea, and are often
staffed by New Zealand teachers. Education New Zealand would like to see the Korean market develop in terms of senior secondary, university, and vocational opportunities.
Appendix

Committee procedure
We met on 25 February and 25 March 2015 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)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Jenny Salesa
Tracey Martin
Hon Maurice Williamson

Evidence and advice received
Office of the Auditor-General, Briefing on Education New Zealand, dated 23 March 2015.
Education New Zealand, Responses to written questions, received 30 January and 12 March 2015.
2013/14 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 2013/14 performance and current operations of the Electoral Commission, and recommends that the House take note of its report.

Introduction

The Electoral Commission is responsible for administering all aspects of Parliamentary elections and referenda. It was established under the Electoral (Administration) Amendment Act 2010. As an independent entity under the Crown Entities Act 2004, the commission is not subject to ministerial direction in discharging its electoral functions and must act independently.

The commission received total revenue of $39.768 million in the 2013/14 financial year, up approximately $12.9 million from 2012/13. The increase was largely due to the 2014 general election, a citizens initiated referendum and a by-election. It has a core of 25 permanent staff, supplemented by approximately 19,500 temporary staff on and around election day.

Online voting

We asked whether online voting in general and local elections was being considered as a way of increasing the low turnout of voters. The commission said it is considering an online voting option and would like it implemented in some form for the 2017 general election; but this was unlikely without a large funding increase and would require changes to legislation. It said the Government had indicated this would not be a priority for the 2017 general election.

The commission wants to introduce online voting to make participation in the election easier for some sections of the community. It does not, however, see it as a panacea for New Zealand’s low voting rates. It said the low engagement rate of young people in elections must be overcome before they will want or expect to be able to vote online. It also noted a school of thought that if online voting was made too simple it would detract from the importance of the civil duty of voting, which is emphasised by the effort involved in voting in community booths.

Estonia was cited as the best example of a country that had given an online voting option to a relatively small, well-educated, technology-savvy population; yet the number who used it was very small, as was Estonia’s overall participation rate of 55 percent.

The commission said that online voting had proved troublesome in overseas jurisdictions, with identification of voters and proving an absence of coercion presenting the biggest problems. Any system that New Zealand introduced would need to be completely trusted, secure, and capable of authenticating voters. It would be technically very difficult to maintain online security whilst allowing authentication of voters’ credentials and verification by voters that their vote had been accurately recorded and counted, and still preserving the secrecy of the ballot.
Coercion of voters

We asked the commission if it was taking action to overcome coercion. For the 2014 general election the commission used an electronic system to scrutinise the results. This made voting anomalies, such as entire boarding hostels voting the same way, easier to detect than it had been with manual checking. The commission also said that Norway’s electoral system had allowed voters the option of casting a second vote if they felt their first had been coerced.

Civics education

The commission’s critical promotional role is to educate voters on becoming enrolled and taking part in elections. Providing civics education would need a whole of government approach, as the commission’s ability to provide civics education on its own is very limited. It has been consulting the Ministry of Education about ways to increase the exposure of the electoral process in secondary education, but so far progress has been limited.

The commission produces its own resources for schools, designed to foster students’ understanding of and enthusiasm for participating in elections. Its “Kids Voting” programme has approximately 78,000 students registered.

To target young voters, the commission sends electronically generated letters to 17-year-olds encouraging them to enrol soon after their birthdays, and to young people applying for a driver’s license. Electoral officials also try to visit every school to encourage students to enrol, though finding the time to do this in the school year is often difficult.
Appendix

Committee procedure
We met on 19 February and 19 March 2015 to consider the annual review of the Electoral Commission. We heard evidence from the Electoral Commission and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Electoral Commission, responses to committee questions, received 12 February 2015.
Organisation briefing paper, prepared by committee staff, dated 17 February 2015
2013/14 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 2013/14 performance and current operations of the Electricity Authority and recommends that the House take note of its report.

Introduction

The Electricity Authority is an independent Crown entity established under the Electricity Industry Act 2010, to provide regulatory oversight of the electricity sector. Its statutory objective is “to promote competition in, reliable supply by, and the efficient operation of, the electricity industry for the long-term benefit of consumers”.

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

In 2013/14, the Electricity Authority’s total revenue was $68.331 million and total expenditure was $67.958 million. The total surplus for the year was $373,000 (compared with $378,000 in 2012/13).

Market competition

What’s My Number? campaign

The What’s My Number? campaign encourages consumers to make price comparisons between electricity providers, to facilitate consumers’ switching providers and thus market competition. In 2013, over 330,000 people visited the website.

The authority believes it necessary to facilitate competition amongst the big retailers because New Zealand consumers have been reluctant to switch providers, mainly because doing so used to take several months. The authority also explained that comparing tariffs is difficult, and that it would like to develop a system allowing consumers to make tailored comparisons of all retailers’ prices, based on their own electricity usage.

In 2013, the estimated average savings available to consumers who visited the What’s My Number? website was between $140 and $150 per year, based on the assumption of consumers switching to the cheapest plan available in their region. The authority said it has now redirected the campaign, as it believes the most receptive consumers have been reached. The authority is encouraging consumers who are reluctant to switch to compare prices from other providers and negotiate better deals directly with their current suppliers.

Prepaid retail energy

We asked whether there is adequate competition in the prepaid retail energy market, since many areas have only one or two pre-pay providers, and in some places prepaid customers are paying 40–60 percent more than other customers. The authority argued that any assessment of the pre-paid market must also take into account post-pay options as consumers can choose between them, and this places competitive pressure on prepay products.
We note that many pre-paid customers are vulnerable users, for whom post-payment is not a practical option. The authority thinks, however, that many vulnerable users choose post-payment, and that the competitive pricing of Mercury Energy’s pre-paid option, Globug, represents a significant initiative in the market. The authority believes “exciting” activity in the wider retail market, such as new advertising, capped-rate plans, and bundled products, indicates healthy competition.

**Unsavoury behaviour**

We were curious to learn what the authority had done to address any unsavoury behaviour it found in the market. We were told that the authority recently investigated an example of undesirable trading, and subsequently reset the prices in question. The authority also prosecuted a provider for wrongfully disconnecting a customer in Central Otago.

**Consumer perceptions**

The authority recently commissioned research comparing New Zealand consumer perceptions of the retail energy market with similar perceptions in three competitive overseas markets. The results show that New Zealand consumers are less proactive than those in the other markets, while New Zealand retailers target customers more actively than retailers overseas. The authority hopes the What’s My Number? campaign will continue to improve the competitiveness of the market, and hopes to publish the research shortly.

**Market trends**

One of the authority’s models of energy demand in New Zealand assumes 2 percent annual growth over the next five years. We queried this figure, as the Organisation for Economic Cooperation and Development is now expecting a one percent annual reduction in energy demand in advanced economies for the foreseeable future. The authority said that while many developed economies have seen a fall in demand in recent years, demand in New Zealand has remained steady. The authority believes that if our economy continues to grow, we will see an increase in energy demand. The authority also noted that electric vehicles have strong potential in New Zealand, because of our high proportion of renewable generation, and they could contribute to growth in demand.

**Small-scale solar**

We asked whether the authority is concerned that energy companies that both generate and retail electricity are increasing connection fees for solar customers and reducing payments for their excess power. The authority is concerned about the possibility of solar customers feeding their excess solar-generated energy into the grid, and not having to pay for connection to the grid. This would leave the remaining, typically less affluent, consumers with proportionately higher grid maintenance costs. The authority said its approach is to ensure a level playing field for all types of electricity generation, and that it is not currently worried about the state of the electricity market.

**Communication of price changes**

The authority is currently working on guidelines for the way retailers communicate price changes to consumers. After consultation, the authority decided not to create a standard format for communicating price changes, as a uniform approach could stifle innovation and competition. However, retailers have been informed that if their communication of price changes remains poor, there may be regulatory intervention by the authority.
Vulnerable consumers

We asked what the authority is doing to engage with and protect financially vulnerable and medically dependent customers. First, the authority told us that it has provided training for staff at the Citizens’ Advice Bureau, the New Zealand Federation of Family Budgeting Services, Work and Income, and a number of community organisations, in an effort to facilitate switching and cost-saving.

Also, the authority has monitored the guidelines for dealing with vulnerable and medically dependent customers. We heard that the electricity industry set up an independently-chaired Retail Working Group to address problems with implementing the guidelines, and as a result disconnections were reduced from around 11,000 in the fourth quarter of 2013 to 5,000 a year later.

In consultation with the working group, the authority’s Retail Advisory Group is considering changes to the way domestic contracts treat vulnerable and medically dependent customers. The authority expects to hear the outcome later in the year.

Electricity infrastructure

We expressed some concern over recent substation faults and resultant power outages in Auckland, and asked what the authority is doing about Auckland’s security of supply. The Minister for Energy and Resources has tasked the authority with conducting a review of these events. The report, which is due in April, will focus on the overall reliability of the electricity supply, rather than the technical details of the faults. The next step will be a cost-benefit analysis of any changes proposed as a result of the review.
Appendix

Approach to this annual review

We met on 19 February and 19 March 2015 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
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received

Electricity Authority, Responses to written questions 1–127, dated 16 February 2015.

Electricity Authority, Responses to written questions 128–135, dated 16 March 2015.


Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
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Energy Efficiency and Conservation Authority

Recommendation

The Local Government and Environment Committee has conducted the annual review of the 2013/14 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), a Crown entity, is funded mainly from Vote Energy. The authority’s primary purpose is to implement Government strategies for energy efficiency, energy conservation, and renewable energy.

In 2013/14 the authority’s total revenue was $83.891 million, and its expenditure was $82.133 million, resulting in a net surplus of $1.758 million.

Commercial energy efficiency

EECA informed us that approximately $2.5 billion of the $18 billion a year New Zealanders spend on energy could be saved by better energy efficiency measures. It said it has been presenting business cases for energy efficiency practices to New Zealand’s “top 200” companies. These companies represent about 70 percent of all the energy consumed by businesses.

We asked about the outcomes of this engagement with businesses. EECA has entered into contracts with 20 companies. We heard that one of them has agreed to spend $2 million on energy efficiency measures, which EECA calculated would save them 11 gigawatt hours per annum. We were pleased to hear about the potential savings to businesses from energy efficiency initiatives, but surprised that businesses were not already aware of this potential.

Warm Up New Zealand

We asked about the progress of the Warm Up New Zealand: Healthy Homes programme. EECA said that this has continued to be a success, especially for low-income families, who occupy almost half of the approximately 270,000 homes that have now been insulated at no cost to them.

We asked why the insulation company Right House recently went into receivership, considering the success of the Warm Up New Zealand: Healthy Homes programme. We were told that this happened to the British-owned company for various reasons unrelated to the market, and that the insulation part of the company had in fact been bought by another company and is continuing to operate.

Christchurch District Energy Scheme

We asked for an update on the Christchurch District Energy Scheme, a centralised energy scheme that uses renewable fuels to provide heating, part of the Christchurch rebuild project. EECA has supported this scheme by advising on the plans. The authority said that the Christchurch Hospital energy “hub” is being constructed, and that the way that energy might be distributed from the hub was still being considered.
Transport savings

EECA affirmed its support for the replacement of carbon-heavy fuels with renewable fuels. It said that reducing reliance on fossil fuels would bring environmental as well as economic benefits. In particular, EECA said it is focussing on industrial heat.

Fuel-efficient tyres

EECA brought its fuel-efficient tyre programme to our attention. It believes that 3–7 percent of total fuel consumption could be saved by using fuel-efficient tyres. EECA said it has encouraged eight of the largest suppliers of tyres to stock fuel-efficient tyres.

Electric cars

EECA has been encouraging the purchase of electric cars by New Zealand businesses, especially fleet owners, such as the Government.

EECA pointed out that electricity costs a fraction of what petrol does to fuel a vehicle, but said that there was not enough information available about the benefits of electric vehicles to greatly increase demand for them. EECA believes that electricity companies should be leading the way by purchasing and promoting electric cars.

We asked about electricity refuelling stations for electric cars. EECA told us that these cars could be charged from a regular power point, and that electric vehicles could last about 160km before they went flat. EECA considers this a reasonable distance, and told us that the average commute was only 30km. Whilst EECA told us it supports a greater number of electrical refuelling stations, they cautioned that the wait time to refill at a refuelling station is approximately 20 minutes, which is comparably longer than filling a vehicle with petrol. This may be a deterrent to purchasing an electric vehicle.

We encourage EECA to continue its promotion of electric vehicle ownership in New Zealand.

Engagement with Māori

We asked about EECA’s engagement with Māori entities, particularly those that were doing well with energy conservation. EECA said that it has had a series of involvements with Māori, such as a nationwide joint housing insulation programme with Tūwharetoa.

We encouraged EECA to visit and engage with Tuaropaki, a private enterprise that has been recognised by the United Nations for its energy conservation initiatives. EECA responded positively to this suggestion, and we look forward to future updates.
Appendix

Committee procedure
We met on 19 February and 26 March 2015 to consider the annual review of the Energy Efficiency and Conservation Authority. We heard evidence from the Energy Efficiency and Conservation Authority and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocy
Paul Foster-Bell
Julie Anne Genter
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Evidence and advice received
Energy Efficiency and Conservation Authority, Responses to written questions, received 10 February 2015.


Organisation briefing paper, prepared by committee staff, dated 17 February 2015.
2013/14 Annual review of the Environmental Protection Authority

Report of the Local Government and Environment Committee

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Environmental Protection Authority

Recommendation
The Local Government and Environment Committee has conducted the annual review of the 2013/14 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), a Crown entity, was established in 2011. It is responsible for regulatory functions concerning environmental management, including: the management of applications for proposals of national significance, the regulation of hazardous substances and new organisms, and of ozone-depleting substances and hazardous waste, and the administration of the Emissions Trading Scheme and the Emission Unit Register. The EPA recently acquired the new role of managing the environmental impact of specified activities in the Exclusive Economic Zone.

In 2013/14 the authority’s total expenditure was $35.885 million, resulting in a net deficit of $1.226 million.

Hazardous substances
The EPA has worked to reduce hazardous substance incidents and related deaths. We were told that approximately 600–900 New Zealanders’ lives are lost each year from exposure to hazardous substances at work; most deaths have arisen from a historical lack of knowledge about hazards. An example is exposure to asbestos, which was thought initially to be harmless.

Industry compliance with hazardous substance regulations remains poor; an EPA survey in 2013 recorded compliance at about 30 percent. The authority explained that this often reflects a “she’ll be right, mate” attitude in workplaces. We asked what the EPA was doing to improve compliance. It said it intends to work with WorkSafe New Zealand, which has recently taken over responsibility regarding hazardous substances in the workplace. We hope to see an improvement in this area.

The EPA said that in 2013/14 it fielded nearly 7,000 queries relating to hazardous substances, and made decisions on over 1,300 hazardous substance applications. Last year the authority ran a campaign to raise awareness of potential hazards posed by various substances. We were impressed that 12,000 of their information “toolboxes” were requested by businesses.

Emissions Trading Scheme
The EPA said it has been trying to improve the integrity of the Emissions Trading Scheme by redeveloping the Emission Unit Register. The register administers transactions under the Emissions Trading Scheme to enable New Zealand to meet its international climate change commitments. We asked for an update on the progress of this transition, as the authority’s briefing to the incoming Minister set a “go live” target of early 2015. Whilst the project is reportedly on budget, we were told that its implementation has been delayed to
ensure the information technology systems used are “perfect”. This will affect the second release, which is now likely to be in late 2015. However, we were told that these delays will not affect the auctioning of carbon credits, which is a separate capability.

**Exclusive Economic Zone**

The EPA said it has processed several proposals under the Exclusive Economic Zone and Continental Shelf (Environmental Effects) Act 2012, but has been challenged by the new legislation, which sets a high bar for approval. The authority noted that current legislation makes it difficult for any sea-bed mining activity to be consented; and it is also taxing on applicants who must engage in much time-consuming and costly community consultation. The majority of us encourage the EPA to consider this issue further.

In its briefing to the incoming Minister the EPA said that amendments to the Act are desirable, and we sought to hear more about this suggestion. The EPA told us it had been required to issue warning letters to oil companies for what it perceived to be relatively low-level breaches of the legislation. For example, one company did not request formal approval from the EPA for maintenance work, as it was required to do under the Act since it was further than 12 miles from shore.

New Zealand’s Exclusive Economic Zone is the fourth largest in the world, but not much is known about it. We asked what measures were being taken to address this. We understand that various organisations have been gathering pertinent information, but the EPA explained that data is not currently collated, nor is there any spatial planning. We were assured that the current lack of knowledge about the Exclusive Economic Zone had not affected the EPA’s approach to applications; the legislation itself calls for a precautionary approach.

We asked about the methodology the EPA uses for assessing Exclusive Economic Zone applications, considering the authority’s recent decision to refuse marine mining consent to Chatham Rock Phosphate Limited. The EPA said its decision-making committees hear evidence on each application. The EPA conceded that recruiting for these committees has been difficult because of the low pay, and the technical skill-set needed and time required. The authority assured us that it has discussed possible solutions to these issues, such as a standing committee; however resourcing issues remain an inhibitor.

The majority of us suggested more collaboration with agencies such as Callaghan Innovation, which had previously awarded a grant to Chatham Rock Phosphate Limited.

**Engagement with Māori**

Last year the EPA board adopted He Whetū Mārama, a framework to guide the EPA’s fulfilment of its statutory obligations to Māori. It has two pillars—informed decision-making from knowledge of Māori perspectives, and maintaining a productive relationship with Māori. The EPA said that a number of initiatives have been introduced as a result of this framework. For example, applicants are consulted to ensure that Māori concerns and perspectives have been considered. We are encouraged by, and support, these initiatives.

**Improvement of business systems**

We were informed that the authority’s information technology systems need replacement, as well as their financial system. The authority assured us that it started preparing for the replacement these systems 18 months ago, and will put a bid in as part of this year’s budget process.
The EPA brought to our attention the fact that it performed a self-assessment in 2014, ahead of the Ministry for the Environment's assessment. The self-assessment made a number of recommendations. We were pleased to hear that the EPA board will consider and implement the recommendations, and is committed to ongoing improvement and transparency in its decisions.
Appendix

Committee procedure
We met on 26 February and 26 March 2015 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)
Matt Doocy
Paul Foster-Bell
Julie Anne Genter
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Evidence and advice received
Environmental Protection Authority, Responses to written questions, received 10 February 2015.

Office of the Auditor-General, Briefing on the Environmental Protection Authority, dated 26 February 2015.

Organisation briefing paper, prepared by committee staff, dated 26 February 2015.
2013/14 Annual review of the Families Commission

Report of the Social Services Committee

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The Social Services Committee has conducted the annual review of the 2013/14 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, accountable to the Minister for Social Development. From 1 December 2014, the Families Commission has operated as the Social Policy Evaluation and Research Unit (SuPERU). Amendments to the Families Commission Act in March 2014 gave the commission additional responsibilities for monitoring and evaluating programmes and interventions in the social sector and for providing social science research into key issues, programmes and interventions. The commission seeks to improve understanding about families and whānau, and the policy settings that improve their strength and resilience.

The commission’s income for 2013/14 was $11.941 million (its 2012/13 income was $7.759 million). Its total expenditure was $11.542 million ($7.589 million in 2012/13), resulting in a $399,000 surplus.

The commission undertakes some research itself but primarily it commissions research, some of it from universities.

Organisational changes

The Families Commission Amendment Act 2014 established new governance arrangements for the Families Commission, replacing a chief commissioner and commissioners with a Families Commissioner and board. A Social Science Experts Panel was also established to provide academic peer review of research, and guidance to the commission.

Before the structural changes were made, the commission re-oriented itself to be customer-focused and outward-looking, to exert influence throughout the government sector, rather than inward-looking and focused on research. The commission now comprises a knowledge unit, a business services and operations unit, and a client services and sector change unit. The commission considers this structure to be in tune with its new mandate. It does not expect to make further structural changes.

We heard that some staff left when working arrangements and team structures were altered, so the staff now includes recent recruits and long-term employees. Some are research and evaluation experts and others experts at influencing, and at assembling and presenting evidence for the purposes of different audiences. The commission would like to fill the four remaining vacancies in the new structure with people with strong quantitative analysis skills and experience in analysing big data. The commission conceded that the change process was difficult, but said there is now a sense of excitement as the staff feel their research is more likely to be used. We heard that a strong foundation has been laid
but there remains a lot of work to do. We encourage the commission to continue building its expertise and its morale.

**External relationships**

The client services and sector change unit pursues relationships with stakeholders including clinical staff, people working in areas being researched, and academia. For example, the unit hosted a knowledge-exchange forum for a group of academics on family violence. The commission sees itself adding value by working across agencies. It has done work, for example, on the children of prisoners and on families who do better than expected, and has contributed in various ways to Treasury’s work on social investments for budget interventions.

We were interested to hear that clients sought the commission’s expertise in evaluating programmes. The unit also discusses with organisations their evidence needs. We heard that at present topics of particular interest to agencies are family violence, helping the most vulnerable members of society, and evidence-based interventions to improve outcomes for families and whānau.

We heard that there is a lot of international interest in organisations like the commission, which link people who produce research with people who use it. The commission is gaining an international reputation, and the chief executive, Clare Ward, has been invited to a number of conferences. We encourage the commission to continue building its expertise and reputation and we will be interested to see the result.

**Family violence**

Before the commission changed its strategic direction, its approach to family violence was a public health one, and it undertook outreach work in this area. While family violence remains a focus for the commission, it considers the issue to need a long-term approach from the Government, non-government organisations, communities, families, and individuals. It funds the New Zealand Family Violence Clearinghouse, a national centre based at the University of Auckland for research and information on family and whānau violence in New Zealand. The commission and clearinghouse are working towards disseminating more information publicly.

The commission also funds the White Ribbon campaign, and has commissioned research on alcohol and family violence and on the effectiveness of the current system for dealing with family violence. It has also spent the last year working with decision-makers to foster the use of evidence in their decisions in this area.

We strongly recommend that the commission maintain a focus on family violence and work with others to help reduce its incidence.

**Growing Up in New Zealand**

This longitudinal study’s participants were born in 2009 and 2010, and interviewers have just finished talking to those children who are four-and-a-half or five years of age. Data was collected before they were born, at nine months, and at two years of age. The current funding for this longitudinal study ends on 30 June 2015. The commission has made a case for the continuation of this funding, which mostly comes from government departments and universities. The commission considers this study to be a valuable source of information, as it includes some antenatal and biological sampling not covered by any other longitudinal dataset. Data from this study is likely to be used by policymakers and planners
as it is ethnically representative of the New Zealand population. We will be interested to see the outcome of the case for more funding.

**Work for Government**

We heard that the commission is involved in policy debates and work by Government. It has also had input into thinking about the Tāmaki regeneration project. The commission considers it important to be involved in research and evaluation for the policy process, and to influence policy by bringing evidence. It is involved in establishing research methodologies and ensuring robust peer review using social science experts and transparent publishing protocols.

**Youth Mental Health Project**

The purpose of this three-year project is to consider how the Government can improve services for young people with, or at risk of, mild to moderate mental health problems. It is a three-year project. Around September or October last year the commission presented a formative report to the project’s steering group. The commission expects to publish its final report by the end of March, once the Ministry of Health, which commissioned the project, has had time to consider the findings. We are interested to see the recommendations in the final report.

**Foetal alcohol syndrome**

The commission is working on data relating to maternal drinking in relation to foetal alcohol syndrome. The commission hopes to obtain more information about parental behaviour and children’s behaviour in the early years. We understand there is anecdotal evidence that increasing numbers of children are going through school with difficulties caused by this syndrome.
Appendix

Approach to annual review
We met on 25 February and 25 March 2015 to consider the annual review of the Families Commission. We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members
Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Stuart Smith
Louisa Wall
Poto Williams

Evidence and advice received
Families Commission, Responses to written questions, received 5 February and 11 March 2015.
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Financial Markets Authority

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Financial Markets Authority and recommends that the House take note of its report.

Introduction

The Financial Markets Authority is an independent Crown entity established under the Financial Markets Authority Act 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.

The authority’s total operating income in 2013/14 was $31.188 million and total operating expenditure was $29.413 million. The total surplus for the year was $1.775 million.

Protection of consumers

We raised the issue of fair conduct, and the authority responded that this is a critical part of the legislation, and that it undertakes monitoring and reporting on inappropriate practice in the financial markets. We asked the authority what it is doing to ensure the protection of consumers from poor practice in the financial industry. The authority’s focus is on working with the industry to ensure good sales practices, for example regarding the use of incentives for salespeople to sell financial products, and KiwiSaver providers’ practices to encourage consumers to switch providers. It also monitors market conduct more generally, for example in its current investigation of alleged market manipulation by Milford Asset Management Limited.

The authority aspires to be an engaged regulator. It communicates with the Ombudsmen service and disputes resolution providers about potential problems in the industry, and it has also conducted surveys of investors and stakeholders. The authority has no concerns about any particular sectors in the financial industry.

Crowdfunding and peer-to-peer lending

New rules for crowdfunding and peer-to-peer lending were recently introduced under the Financial Markets Conduct Act 2013. Crowdfunding involves raising money from a large number of individuals, and peer-to-peer lending involves individuals lending money to other individuals. The rules seek to make it easier for small-and medium-sized enterprises to raise capital. The authority explained that the new system has to balance the streamlining of requirements for those seeking to raise capital with the need for information of those who might provide the capital. Few other countries have created systems for streamlining crowdfunding and peer-to-peer lending, so there is no “roadmap” for reaching the right balance. The authority is monitoring the development of the sector to determine whether changes are necessary.
Small investor confidence

The authority believes it has sufficient resources to improve the confidence of small investors in financial markets. The authority’s External Communications Group, which is responsible for communication to the general public, has been a focus for the authority over the past 18 months.

Relationships with other government agencies

We were curious about the authority’s collaboration with other government agencies. The authority told us it has memorandums of understanding with a number of agencies, including the Serious Fraud Office, the Companies Registrar, the Reserve Bank, and the Ministry for Business, Innovation and Employment. The authority is also a member of the Council of Financial Regulators, which seeks to ensure efficient oversight of the financial industry throughout the government sector. It is relatively rare for the authority to have interactions with the Police.
Appendix

Approach to this annual review
We met on 19 March and 2 April 2015 to consider the annual review of the Financial Markets Authority. We heard evidence from the Financial Markets Authority and received advice from the Office of the Auditor-General. The advice, evidence, and transcript are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Financial Markets Authority, Responses to written questions 1–127, received 17 March 2015.

Financial Markets Authority, Responses to written questions 128–134, received 30 March 2015.


Organisation briefing paper, prepared by committee staff, dated 16 March 2015.
2013/14 annual review of the Guardians of New Zealand Superannuation
Report of the Commerce Committee

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Guardians of New Zealand Superannuation

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Guardians of New Zealand Superannuation, and recommends that the House take note of its report.

Introduction

The Guardians of New Zealand Superannuation is a Crown entity established by the New Zealand Superannuation and Retirement Act 2001. The role of the Guardians is to manage and administer the New Zealand Superannuation Fund and maximise its return over the long term, without undue risk. The fund is a Government savings vehicle to help reduce the tax burden on future generations of the cost of New Zealand Superannuation.

The Guardians and the fund's funds are accounted for separately; both, however, are met by the fund with the exception of the board and audit fees, which come from an appropriation of $360,000.

As of 30 June 2014, the fund had assets of nearly $25.82 billion, compared with $22.56 billion for 2013. The actual return on the fund (before tax, after costs) for 2013/14 was 19.36 percent (a $3.26 billion increase), up from 17 percent over the previous five years.

Adrian Orr is the chief executive, and Gavin Walker is the chairperson of the board.

Oak Finance loan

In July 2014, the Guardians invested US$150 million in Oak Finance, a vehicle arranged by Goldman Sachs as part of a much larger loan package to Banco Espírito Santo (BES) in Portugal. A month later, BES failed and Portugal’s central bank split BES into two pieces, with a new bank, Novo Banco, holding the good assets and BES retaining the bad.

Initially, the Oak Finance loan was placed in the successor Novo Banco and its assets protected. However, in December 2014 a retrospective law change by the Bank of Portugal meant that the Guardians’ loan was transferred back to BES. This action also had the effect of voiding the credit insurance by separating it from the loan.

Changes to internal procedures

In the aftermath of the Oak Finance loan, we wanted to know how the Guardians had changed their internal processes or procedures in response. We were told that the board has taken a “proportionate response”, giving management the time to assess the situation and determine the right course of action with regard to legal proceedings.

The board also initiated an internal review, through the Guardians’ own risk compliance division, of all the processes around the Oak Finance loan. They expressed confidence in the transparency and independence of the review, as the compliance division of the organisation had no part in the investment decision. The preliminary results of the review indicate that the decisions made were within the delegated authority of the management team, and consistent with investment policies agreed to by the board. While there may be “refinements”, we were told that there are not likely to be any material changes in
processes as a result of the review. The review is continuing, with a view to extracting lessons from the experience.

The Guardians explained that the Oak Finance loan was one part of a cash management strategy that has made about $900 million for the fund over the last few years. Despite the Oak Finance failure, the Guardians stressed that the cash strategy has performed very well, and the current issues result from a situation that could not have been anticipated, and what they feel are unlawful actions by the Bank of Portugal.

**Lessons learned**

We were very interested to know if the Guardians believed that a similar event could happen again. We were told that while aspects of the episode such as the intervention by the Bank of Portugal in the domestic banking market and the subsequent retrospective law change could not have been foreseen, some elements to the Oak Finance loan held lessons for the protection of future investments. Chief among these was the fact that the New Zealand Superfund was not seen as a visible participant because it was hidden behind the Oak Finance vehicle; the Guardians said that the lack of transparency as to the lender of record was “critical”. However, also critical were the retrospective law change and separation of the credit insurance from the loan itself, which the Guardians told us represented the dismantling of “a globally standard and simple structure…commonly used as an investment strategy”. We were assured that the Guardians have no other investments of a similar structure or exposure to the Oak Finance loan.

**Cost-recovery proceedings**

The Guardians told us they would be filing debt-recovery proceedings against the Bank of Portugal. They did not want to discuss other potential parties in legal proceedings, or any litigation strategy. The Guardians reiterated that they consider the Bank of Portugal’s retrospective law change unlawful and they will be pursuing it in the courts. The Guardians did not want to estimate the likelihood of the proceedings being successful, but they expressed confidence in the eventual outcome. We will continue to follow this matter with great interest.

Following the hearing of evidence, it was reported that the Guardians, with a group of other Oak Finance investors, had filed debt-recovery proceedings in the High Court of Justice in London against Novo Banco.¹

**Fund performance measures**

One of the two key performance measures used by the fund is a passive reference portfolio, which helps measure value added through active investment. In the 2013/14 year, the fund performed slightly (0.11 percent) behind the 19.47 percent reference portfolio. While we note the high performance of the fund in the year under review, we asked the Guardians to explain this drop in performance. The Guardians said that the cost structure of the portfolio varies from year to year depending on particular investment activities. They said there had been a “significant shift” in the investment activities of the 300 or so other funds in the reference portfolio towards a profile closer to that of the Guardian’s recent investments. We will continue to monitor it performance with interest.

Appendix

Committee procedure
We met on 26 February and 12 March 2015 to consider the annual review of the Guardians of New Zealand Superannuation. We heard evidence from the Guardians of New Zealand Superannuation and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Guardians of New Zealand Superannuation, responses to written questions 1–127.
Guardians of New Zealand Superannuation, responses to written questions 128–133.
Office of the Auditor-General, Briefing on the Guardians of New Zealand Superannuation, received 24 February 2015.
Organisation briefing paper, prepared by committee staff, received 24 February 2015.
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Recommendation

The Health Committee has conducted the annual review of the 2013/14 performance and current operations of Health Benefits Limited, and recommends that the House take note of its report.

Introduction

Health Benefits Limited (HBL) is a Crown company formed in 2010 to help District Health Boards (DHBs) save money by reducing their administrative, support, and procurement costs. It aims to do this by developing business cases for shared services programmes.

HBL structures its work into four programmes:

- Direct Services to DHBs, including shared banking, insurance services and national procurement
- Finance, Procurement and Supply Chain
- Facilities Management and Support Services, including initiatives for food services and linen and laundry services
- Information Services, including development of the National Infrastructure Platform

The Minister of Health announced in November 2014 that HBL will be wound down this year and its activities transferred to another entity or entities. The Minister said that DHBs wanted more responsibility for implementing programmes, and that their preference is to work with healthAlliance (FPSC) Limited, which works with northern DHBs. The Acting Director-General of Health has formed an interim project governance group to oversee the transition of HBL programmes to DHB ownership.

We understand that the Office of the Auditor-General is carrying out work to look into concerns that have been raised regarding HBL programmes.

Financial and service performance management

In 2013/14 HBL's total operating expenses were $74.287 million. It recorded a deficit of $4.829 million.\(^1\) During this period the health sector realised only $92 million in benefits from initiatives facilitated or assisted by HBL, against a forecast of $144 million.\(^2\)

The Office of the Auditor-General issued an unqualified audit opinion on the financial statements and non-financial performance reporting of HBL, but drew attention to the disclosures that HBL included in its financial statements about the uncertainty of the Finance Procurement and Supply Chain programme, and the assumptions made in order to assess the impairment of the programme. The Office of the Auditor-General found the assumptions reasonable. It also rated HBL’s financial information systems and controls as

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“good”, although it noted that certain improvements would be beneficial. Its management control environment and its service performance information and associated systems and controls were rated as “needing improvement”.

**Vision for the organisation**

We were interested in HBL’s views on the agency being wound down, and noted that the previous Minister of Health described it as “high-performing”. HBL told us that it had been aware that healthAlliance might have the infrastructure to implement savings programmes of the kind HBL was mandated to foster. DHBs also reportedly prefer dealing with healthAlliance. HBL told us that it had always expected its lifespan to be short; it designed and facilitated rather than implemented programmes, and its use of consultants rather than employing its own staff also reflects its intended short tenure.

**Reporting results**

HBL accepted that there have been problems with its reporting of the results of its programmes to the sector. This is highlighted in the latest audit by the Office of the Auditor-General. HBL is working with DHBs to refine its methodology and tracking to allow more precise and standardised reporting of savings and efficiencies. As a result of improvements to these processes, HBL assured us it was confident that its successor will be able to do a better job of reporting when it takes over the programmes.

HBL reports savings made by DHBs as a group and sees itself as a book-keeper for efficiencies. We noted that some DHBs perceive HBL’s reporting as taking credit for specific savings being made by DHBs themselves. HBL said that it sees many of the savings as collaborative efforts, and did not intend to represent all savings as a result of its own work. It told us that $302 million in savings had been made in total, and that $95 million of this was as a direct result of HBL’s activities.

**Linen and laundry programme**

HBL acknowledged conflict in its work with DHBs; it has had particular difficulty signing DHBs to its linen and laundry programme. Some DHBs still have not signed up to the programme, which would involve cutting down the number of facilities providing the services. A major issue for HBL in trying to sell all of its programmes is that no proposal will have the same benefits for all DHBs. Individual DHBs are reasonably considering whether the benefits of each proposed service will be worthwhile for them.

**Food services**

Food services have been a contentious issue for HBL because of concern about food quality and initial proposals to close DHB kitchens. HBL told us that it is aware that DHBs want to maintain close relationships with food providers, and this is reflected in the “relational” contract signed with Compass Group to provide food services to DHBs in the Auckland area. HBL acknowledged that staff will be affected by the change of provider, but said staff will be offered a transfer to Compass under their existing terms and contracts. HBL will be working with DHBs, Compass, and unions to address employment issues regarding food services.

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**Shared banking**

A shared banking initiative for all twenty DHBs is being run by HBL and Westpac. This programme resulted in DHBs saving $4.5 million in 2013/14. The benefits include lower transaction costs and lower fees. We asked what this could mean for the wider state sector. HBL said its model could be used by other organisations, and it has discussed its benefits with other agencies.

**Information services**

We were interested in HBL’s National Infrastructure Platform business case and heard there have been delays signing up DHBs. The programme is in a transitional planning stage and much detail still needs to be finalised. The new platform will involve consolidating 40 to 50 data warehouses run by DHBs into two facilities in Auckland and Christchurch. Some of the data warehouses are in disrepair. HBL explained that this consolidation will result in more resilient, better-performing IT, which in turn will provide reliable tools for clinicians.

**Legacy**

HBL told us that it recognises that implementing sustainable change in the complex health sector is difficult. We know that the Office of the Auditor-General considers that a transition of this nature will require very careful management and good communication to ensure service continuity. We will be interested to see how arrangements progress. We hope that lessons will be learnt from HBL’s experiences and that the health sector will benefit accordingly.
Appendix

Committee procedure
We met on 11 February and 1 April 2015 to consider the annual review of Health Benefits Limited. We heard evidence from Health Benefits Limited and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Health Benefits Limited, Responses to written questions, received 5 February and 13 March 2015.


Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Health and Disability Commissioner. The committee has no matters to bring to the attention of the House, and recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Health Promotion Agency, the Pharmaceutical Management Agency, and the Health Quality and Safety Commission.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Simon O'Connor
Chairperson
The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Health Research Council of New Zealand. The committee has no matters to bring to the attention of the House, and recommends that the House take note of its report.

Simon O’Connor  
Chairperson
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Recommendation
The Social Services Committee has conducted the annual review of the 2013/14 performance and current operations of Housing New Zealand Corporation and recommends that the House take note of its report.

Introduction
Housing New Zealand Corporation aims for New Zealanders in high need to have access to a Housing New Zealand property for as long as that need continues. With 193,000 tenants, 95 percent of whom have high housing needs, it is the country’s main provider of social housing.

Almost 45 percent of the corporation’s portfolio is in Auckland, where it owns 30,800 houses and flats, representing almost 7 percent of Auckland homes.

Hobsonville Land Company Limited is a subsidiary of the corporation. It is building 3,000 new homes at the former Defence Force airbase at Hobsonville, Auckland, with at least 20 percent of them priced “affordably”, including some for first home buyers.

Financial and service performance
The value of the housing portfolio was $18.6 billion at 30 June 2014. The corporation’s total revenue in 2013/14 was $1,139 million, 94 percent of which was rent from tenants, including income-related rent subsidies. Its expenditure was $939 million, resulting in a surplus (before tax) of $200 million. This was $36 million higher than budgeted.

A dividend of $90 million from the 2012/13 year was returned to the Crown in 2013/14.

By the end of June 2014, 444 homes and sections at Hobsonville had been sold, including 223 in 2013/14, and the project became self-funding. At the end of June 2014, 84 affordable houses had been sold.

New homes
We heard that about 5,000 people who have been assessed as having high housing needs are waiting for homes. Many of the corporation’s properties are the wrong size or are in the wrong place for the people needing them. In particular, more accommodation is needed in Auckland and Christchurch, and more one-bedroom homes are needed. The corporation says these problems apply to about a third of its portfolio.

The corporation told us it has about $575 million to invest, including $320 million of insurance payments from earthquake claims. We heard that, in addition to the cost of land, it costs about $300,000 to build a two-bedroom home, and $400,000–$450,000 for a three- or a four-bedroom home.

About 95 percent of the corporation’s Christchurch properties were damaged or written off in the 2010 and 2011 earthquakes. Since February 2013, over 3,200 properties have been repaired. We were pleased to hear that the corporation expects to meet its aim of completing 5,000 repairs by the end of 2015.
The corporation said it aims to build, or have under construction, up to 2,000 homes by December 2015. We were told that this is a very large undertaking by world standards; however, the corporation is confident that it will build 1,000 houses in the 2015 calendar year, and that within a year, it could be capable of building 1,500 houses per year. Between February 2013 and the end of January 2015, the corporation completed 444 new homes, including 137 in Christchurch. About 1,000 more, including 400 in Christchurch, are in various stages of completion.

We heard that it takes 14 to 16 months to build a new home, and most of that time is spent in the consultation, planning, and consenting phases. The corporation said the main constraints on its developments are issues of human and construction resources. For example, it has learned that construction partners need certainty, and the corporation is working to find ways of keeping tradespeople in Christchurch until the end of the building programme. The corporation is also exploring how it can use its large size to procure and build more efficiently; for example, it is looking into the possibility of prefabricating parts of buildings.

Most of us are pleased with the volume of construction so far, and we encourage the corporation to progress its work in this area so that more of those in need can have access to housing. Others of us remain concerned at the gap between need and provision, and an apparent slow or inadequate response from the state.

**Land holdings**

The corporation told us that many of its land holdings are underutilised, with small homes on large blocks of land. This is not efficient, and the corporation is seeking to build more homes on the land it owns. We learnt that a typical project would convert several adjacent sections, containing three or four old houses, into a development of 10 to 20 new homes. This strategy would also help meet the rising demand for smaller dwellings rather than three-bedroom ones.

**Social housing reforms**

We heard that the corporation’s portfolio has been reduced over the last two years from 69,407 homes to 68,229, because the corporation has divested houses in areas of low demand, and is demolishing earthquake-prone buildings that are not economic to fix. As part of the social housing reforms, the corporation expects to reduce its portfolio further over the next three years, to about 60,000 properties, starting with the sale of 1,000–2,000 homes to community housing providers in 2015.

We are aware that the Government intends to change the eligibility criteria to make more tenants (65,000 rather than the current 62,000) qualify for income-related rent subsidies, by 2017/18. The total includes tenants of community housing providers. The corporation told us that over the same period of time, the Government will be transferring houses to community housing providers, and the corporation will be divesting itself of any surplus properties.

**Vacant properties**

We congratulate the corporation for reducing the time houses sit vacant between tenants, from an average of 72 days at the start of July 2013 to 31 days currently. This has allowed over 1,200 more families to be housed in 2013/14. It has been achieved by better...
coordination of the tasks that need to be done between tenancies. The corporation is confident that it will continue to shorten turnaround time.

**Maintenance**

The corporation conducts over 400,000 maintenance interventions each year, some in response to tenants’ requests, others scheduled maintenance. We heard that the corporation has recently renewed performance-based maintenance contracts with a large number of suppliers and tradespeople. The corporation expects to make savings through direct contracts with suppliers, avoiding retail margins. The maintenance contracts are worth about $1 billion over their five-year duration, employing over 4,500 tradespeople. We were pleased to hear that these contracts will allow the employment of at least 158 apprentices.

We were told the corporation has spent approximately $70 million retrofitting insulation in its houses wherever it is practicable. Those without insulation are those whose construction makes them unsuitable for retrofitting, for example because of concrete floors or flat roofs. The corporation has also installed thermally-backed curtains in 10,000 properties so far. We encourage the corporation to continue this initiative.
Appendix

Approach to annual review
We met on 11 February and 18 March 2015 to consider the annual review of Housing New Zealand Corporation. We heard evidence from the corporation and received advice from the Office of the Auditor-General.

Committee members
Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Carmel Sepuloni
Stuart Smith
Poto Williams

Evidence and advice received
Housing New Zealand Corporation, responses to written questions, received 5 February 2015.

Office of the Auditor-General, Briefing on Housing New Zealand Corporation, dated 11 February 2015.

Organisation briefing paper, prepared by committee staff, dated 11 February 2015.
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Human Rights Commission

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Human Rights Commission, and recommends that the House take note of its report.

Introduction

The Human Rights Commission is an independent Crown entity created to protect, promote and monitor respect for human rights in New Zealand. It is funded through Vote Justice.

In 2013/14, the total revenue of the commission was $9.72 million and its total expenditure was $10.76 million, resulting in a net deficit of $1.04 million (compared with $0.953 million in 2012/13, after a series of surpluses).

Budget deficits

We observed that the commission had posted deficit budgets for the previous two years and asked if the organisational review had helped the commission re-prioritise their initiatives in order to be more cost-effective. The commission said that, although they had posted a deficit budget, in recent years they had been able to contribute to their reserves, and were satisfied with their financial sustainability. However, they continue to look for ways to manage costs more effectively, for example, in their IT investment and use of “hot-desking” to minimise accommodation space.

Organisational review

In 2013/14, the commission held an organisational review to focus its objectives and improve its efficiency and financial sustainability.

Staffing

The commission said that nine staff had been made redundant as a result of the organisational review. We have subsequently learnt that 26 staff had left since the new restructure commenced in November 2013. The commission said that most of these departures were at the ends of fixed-term contracts or for personal reasons.

The commission said the vacancies have not affected its operational capacity and capability, and many have since been filled.

Cost of contractors

We asked the commission why their external contractor expenses have more than doubled from approximately $464,000 in 2010 to $1.307 million in 2014. The commission said they needed more contractors in 2014 to fill temporary roles until the operational review was complete. Also, consultants have been employed to help develop and implement new procedures and structures, such as a property strategy which will reduce rent costs.
GCSB bill

When the commission was perceived as not meeting a deadline for submissions to the Prime Minister on the GCSB bill, we recalled the government’s response. The commission said that the nature of their submission had been misunderstood: they were not aiming to make a submission by a deadline, but a report to the Prime Minister under the Human Rights Act 1995. Additionally, they have no concern about their funding because they have a clear understanding with the Ministry of Justice as to their operational budget.

Family care

We asked if the commission had anything to do with the families affected by change in family care policy brought about by the New Zealand Public Health and Disability Amendment Act 2013. The commission said that it was still involved in litigation as a result of the Act.

Disputes resolution service

We observed that the disputes resolution service is a critical function of the commission, and asked why the number of complaints the service receives has been decreasing. The commission said that it was trying to determine why complaints were decreasing. The commission also acknowledged that it was difficult for citizens to know where to make complaints, but were encouraged by public engagement through social media platforms. We would be interested to note developments in the next annual review.
Appendix

Committee procedure
We met on 26 February and 19 March 2015 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
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Human Rights Commission, responses to questions, dated 23 February 2015.
Human Rights Commission, responses to supplementary questions, dated 4 March 2015.
Organisation briefing paper, prepared by committee staff, dated 23 February 2015.
2013/14 Annual review of the Independent Police Conduct Authority

Report of the Law and Order Committee

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Independent Police Conduct Authority

**Recommendation**

The Law and Order Committee has conducted the annual review of the 2013/14 performance and current operations of the Independent Police Conduct Authority, and recommends that the House take note of its report.

**Introduction**

The Independent Police Conduct Authority is an independent Crown entity. It aims to reassure the public and Parliament that policing standards are the highest possible. It examines independently and reports constructively on issues within the Police or regarding interaction of members of the public with the police.

The authority’s total revenue for the 2013/14 financial year was $4.041 million, and its total expenses were $4.192 million, resulting in a net deficit of $151,158.

**Funding**

We observed that the authority’s workload was increasing, but that its baseline appropriations had remained static for the last four years. We asked if the authority’s operating budget was affecting its capacity. The authority said that the number of investigations it can complete depends upon its working capital; however, it uses a strict process to prioritise cases, and does not feel that there are cases which should be investigated under its mandate but are not because of funding issues.

The authority acknowledged the demand on its resources of several recent large, high-profile cases. Although the authority is satisfied with its operational budget at present, it said that it would struggle to cope with more comparable unexpected cases.

**Public reporting**

We asked the authority to describe its process for categorising cases for investigation, and comment on the number of reported cases it progressed to the investigation stage. The authority said that it is reviewing its current five-tier ranking system, because it believes the system is causing over-reporting to the public on Police policy, giving the impression that the authority’s primary purpose is to criticise the Police, and undermining public confidence in the policing system. The authority aims to achieve a balance between reporting what is in the public interest and maintaining their cooperative relationship with the Police; they hope to achieve this by varying their reporting methods, for example by reporting on themes rather than individual incidents.

The authority values and works to maintain its relationship with the Police, saying that they can achieve better outcomes when they work together. The authority believes that its relationship with the Police means its processes compare favourably with overseas models.

**Police cell inspections**

The authority is moving away from its traditional random inspection method, which it felt was inconvenient, disrespectful to the police, and unhelpful; often the deficiencies found
during these random inspections resulted from funding decisions outside of the district’s control or power to resolve.

Instead, the authority is working on producing a national standard against which to audit the Police. They hope that this will help the Police to plan systematically and target their resources where they are most needed. The authority still plans to inspect cells randomly from time to time during their routine travels, and it will continue to monitor cell conditions in response to complaints; however, it is looking forward to a more constructive relationship with the Police.

Police custodial management

The authority shares our concern about the number of remand prisoners being detained in police cells. It has investigated several cell blocks in the northern policing districts, and has made recommendations to the Commissioner of Police and the Minister of Justice. The authority’s recommendations relate to the use of contracted security guards, the exceeding of safe occupancy levels, numbers of prisoners in custody over weekends, the detention of vulnerable prisoners, and prisoners’ use of medication while in police custody.

The authority says that the Police culture has always been one of helping, but it considers that the Department of Corrections should take more responsibility for its remand prisoners. Regardless, the authority observed that the opening of the new Wiri prison will relieve a lot of pressure from the detention of remand prisoners in police cells.

Recruitment of investigators

We observed that investigators have historically been serving or former serving police officers, and we asked if the authority intended to broaden its pool of investigators to include people with non-police backgrounds. The authority considers its ex-police investigators vital for their specific knowledge and experience. But it said investigators with non-police backgrounds are also useful in situations where the police might be suspicious of a former officer; the authority continues to recruit investigators with and without police backgrounds.

We acknowledged the work done by the authority, and look forward to hearing from them again in the future.
Committee procedure
We met on 11 March 2015 and 25 March 2015 to consider the annual review of the Independent Police Conduct Authority. We heard evidence from the Independent Police Conduct Authority and received advice from the Office of the Auditor-General.

Committee members
Kanwaljit Singh Bakshi (Chairperson)
Todd Barclay
Mahesh Bindra
David Clendon
Kelvin Davis
Hon Phil Goff
Ian McKelvie
Lindsay Tisch
Jonathan Young

Evidence and advice received

Independent Police Conduct Authority, responses to questions 1–143, dated 6 March 2015.
Independent Police Conduct Authority, responses to questions 144–155, dated 19 March 2015.
2013/14 Annual review of the Institute of Geological and Nuclear Sciences 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 2013/14 performance and current operations of the Institute of Geological and Nuclear Sciences Limited, and recommends that the House take note of its report.

Introduction

The purpose of the Institute of Geological and Nuclear Sciences (GNS) is to undertake research that drives innovation and economic growth in New Zealand’s geologically-based energy and minerals industries, develop industrial and environmental applications of nuclear science, increase New Zealand’s resilience to natural hazards, and enhance understanding of geological and earth-system processes. GNS had a net profit after tax of $1.547 million in the year under review. It received total income of $76.748 million, of which $27 million was core funding. GNS consistently returns a dividend to its shareholding Ministers. Its target is around 8 percent return on equity and we heard that over the last 15 years it has averaged slightly higher.

GNS works very closely with the Earthquake Commission. GNS geologists have made great contributions to the Canterbury earthquake response and recovery, and the Geonet service has a very wide reach. GNS also leads a range of public-good scientific research, with particular strengths in geothermal technologies and services. These benefit from a recently-opened geothermal lab at GNS Wairakei. GNS’ water-dating lab is the best in the world, enabling the measurement of aquifer renewal. GNS ion beam technologies have enabled traceability of air particulate matter through a process of “finger-printing.” Scanning devices are another area of work, including the roll-out this year of a meat-scanning service to Mettler-Toledo, a large company manufacturing scales and analytical instruments.

Looking ahead, we heard that GNS wants to map the 95 percent of the New Zealand land mass that is underwater. To do so, it will draw on international cooperation with organisations like the International Ocean Discovery project, a consortium of 26 countries sharing drill ships and other resources. The goal of this work is to understand the seismic, tsunami, and volcanic risk of the Kermadec Arc.

Return on Equity

GNS’ budgeted target for its return on equity in the year under review was 8.1 percent, but the actual return on equity was only 5.4 percent. The major reason for the organisation falling short of the projected return on equity was a slowed rate of commercial and technology transfer work. This reflected the end of GNS’ major Port Hills project, which was now tailing off, and the conclusion of a major contract in the North Island. These big-ticket projects—worth $800,000 or $1 million a year—were being replaced by significantly smaller local authority projects in the order of $30,000 to $40,000.
Geothermal electricity production in New Zealand is flat at the moment: companies already know where they next want to drill, so there is no need for GNS’ assistance in seeking out new resources. In order to maintain its world-leading capability in the field, GNS is trying to offset flat domestic demand by working increasingly overseas, in Indonesia and the Philippines. Latin America may also offer scope. Two major international projects, one on Oman’s exclusive economic zone, and another in conjunction with the Ministry of Foreign Affairs and Trade in Indonesia, have not progressed at the rate anticipated. This has impacted on GNS’ financial results in 2013/14. We heard that around 10 percent of GNS’ revenue comes from offshore work. The strength of the NZ dollar has weakened offshore income, with exchange rate movement estimated to have cost GNS up to $500,000.

**Viability and sustainability of GNS’ finances**

We heard that roughly one third of GNS’ revenue comes in direct Crown funding. The total amount of core funding is being reviewed, with decisions anticipated at the end of the year. GNS hopes to see some increase in its core funding. Another third of GNS’ income comes from contestable domestic research projects and contracts with New Zealand Petroleum and Minerals and the Marsden Fund, among others. GNS would continue to put forward its best proposals, but could not guarantee outcomes. Where GNS sees best scope for controlling its own financial destiny is via technology transfer revenues, where the greatest potential lies offshore. GNS is building up its work in hazards and in geothermal energy and other areas as part of a five-year programme intended to focus on areas where international demand exists for GNS’ capabilities. A smaller GNS executive team is now focused on commercialisation, external relations, and the international market. We heard that strong cooperation is already underway with Chinese and Japanese seismologists.

**Patenting**

We remarked that New Zealand has a very low rate of patent protection, and that while GNS’ achievement of four new patents in 2013/14 was double the previous year’s tally, it was not a high rate. We heard that GNS’ board has instructed the incoming CEO to seek out and fully commercialise the organisation’s potential intellectual property (IP). Critical to success in this area will be the ability to move quickly to protect and commercialise new IP, an area in which GNS has arguably not moved fast enough in the past.

**Renewable energy and resilience**

We asked about GNS’ work on renewable energy other than geothermal energy, noting that GNS grouped geothermal with the mineral resources and petroleum sector. We suggested that a more diverse range of renewable energy sources would mitigate dependence on this single sector and would also be in line with GNS’ core objective of building energy resilience. We heard that in anticipation of increased future dependence on electric vehicles, GNS is working to ensure that New Zealand’s power infrastructure is resilient enough to manage the increased burden of, for example, the country’s light vehicle fleet making the switch to pure electric energy. GNS is also working in the material science field on alternative means of generating energy from low-grade heat sources like waste heat from industrial processes or existing geothermal plants. Although wind and solar power fall outside GNS’ remit, its material scientists are also working on how to improve storage capacity for energy generated via wind and solar means. We heard that it is GNS’ goal to become the nation’s “energy go-to CRI”.
Fossil fuel: IEA warning

We are aware of the International Energy Agency’s (IEA) recent advice that if international climate change targets are to be met, more than 70 percent of the world’s remaining fossil fuel reserves will have to be left untapped. GNS acknowledged the timeliness of the IEA’s message. We heard that while GNS’ mandate included responsibility for looking after New Zealand’s conventional oil and gas assets, its vision for our energy future was geothermal and hydro, with gas as a transition fuel to generate export income or for use domestically in transport if necessary. GNS sees geothermal and hydro energy as key to New Zealand meeting its 2025 goal of 100 percent renewable energy.

Methane hydrates

Methane hydrate deposits beneath permafrost and ocean sediments are believed to be a larger hydrocarbon resource than all of the world’s oil, natural gas, and coal resources combined. GNS told us that a small team is working on hydrates, which are considered by some an important national resource. GNS’ considers it important to develop understanding of the location of methane hydrates, not just from an energy production standpoint, but also from a climate change perspective. GNS is not working to commercialise New Zealand’s hydrate resource. Research efforts are focused more on identifying it, and the dynamics of methane formation and destabilisation. We asked about the cost of research into hydrothermal vents in the Kermadec Trench. A hydrothermal vent is a fissure in the planet’s surface from which geothermally heated water issues; they are commonly found near volcanically active places, areas where tectonic plates are moving apart, and ocean basins. GNS confirmed that the Sentry submarine research programme was looking at hydrothermal vents in the region, but not from a mining perspective: GNS’ role is to provide information about what resources exist, so that science is used to inform policy debate. We heard that GNS has not undertaken this work or advised the Government on regulations or guidelines for the fracking industry.

Gender balance at GNS

GNS’ staff comprises a 38 percent female, 62 percent male split. While the GNS board has an even gender split, its management team does not. Averaged out over GNS’ governance and leadership team, women comprise 33 percent. We heard that GNS is making efforts to encourage women to apply for jobs that they might consider out of their reach—something that research shows men are more readily inclined to do. In terms of outreach to young women, GNS spends $2 million each year on outreach of all forms, with a focus on young people and on promoting science as a career option for women and girls.

Mānuka honey traceability

Some of us were concerned that the volume of “Mānuka honey” on the global market heavily exceeds the amount of real Mānuka honey that is actually produced. We heard that Dr Karen Rogers’ pioneering work on Mānuka honey traceability is likely to have wide international application in what is a growing and valuable market. Dr Rogers’ method involves the detection of very fine signatures in carbon isotropic ratios that enable the detection of any adulteration of Mānuka honey. This approach is a significant advance on current international testing practice for Mānuka honey, and as such offers strong potential for commercialisation.
Appendix

Committee procedure

We met on 11 March and 1 April 2015 to consider the annual review of the Institute of Geological and Nuclear Sciences Limited. We heard evidence from the Institute of Geological and Nuclear Sciences Limited and received advice from the Office of the Auditor-General.

Committee members

Dr Jian Yang (Chairperson)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received


Organisation briefing paper, prepared by committee staff, dated 5 February 2015.

The Institute of Geological and Nuclear Sciences, response to questions, received 3 February and 20 March 2015.
2013/14 Annual review of the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation

Report of the Transport and Industrial Relations Committee

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The Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation

Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2013/14 performance and current operations of the Ministry of Transport, the New Zealand Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways Corporation, and recommends that the House take note of its report.

Introduction

The transport sector includes road, rail, air, and sea transport. Government organisations in the sector include the four entities that we have examined in this review. Also part of the sector, but not covered by this review, are the Transport Accident Investigation Commission, Maritime New Zealand, the Civil Aviation Authority of New Zealand, and Airways Corporation of New Zealand Limited. Other public organisations with roles in the transport sector include the Meteorological Service of New Zealand (MetService, for public weather forecasting and information for international air navigation), local governments (responsible for local roads and transport planning), and the New Zealand Police (road safety).

In the 2013/14 year, Vote Transport was appropriated approximately $4.1 billion. About 90 percent of this was for roads, and most went to the New Zealand Transport Agency via the National Land Transport Fund (NLTF).

In December 2014, the Government Policy Statement on Land Transport was published, and it takes effect on 1 July 2015. It sets out the transport investment priorities for the next 10 years.

Capital spending on roads

The number of vehicle-kilometres travelled has been static since the early 2000s and we were told it has been the same around the world. Nevertheless, the Ministry of Transport predicts a 50 percent growth in total freight volume in the next 30 years, although not evenly across the country. We heard that there are pressure points at particular areas of the network, and this is where capital is invested.

In 2013/14, approximately $776 million was spent on capital works for new infrastructure and renewal of state highways.

We note that cost-benefit ratio values for new state highways since 2008/09 have dropped from an average of over 3.5 to a little over 2; also, some projects have started before others with higher cost-benefit ratios. We learnt that cost-benefit analysis is a useful tool, but can distort the picture if used alone to plan capital expenditure. Projects with very long-term benefits will tend to get a lower rating than they deserve, because benefits in the future are discounted relative to earlier benefits in this model. The Transport Agency also said it plans
on a wider basis than individual projects: it plans for large areas of the network, and then it looks in detail at the levels of performance it wants within those areas.

We heard that sometimes improvements to local roads do not proceed because of local authorities’ financial constraints. We hope to see this change as a result of the new formula for calculating NLTF financial assistance rates, due to come into effect on 30 June 2015. Under the new formula, the NLTF will fund 53 percent of local roads. Each project will get at least 51 percent NLTF funding, and at most 75 percent, determined by a formula based on the ability of local councils to pay.

**Road maintenance and renewals**

Road maintenance is a funding pressure point, and we heard about changes to the Transport Agency’s renewals and maintenance programme. Under a new business model for renewal and maintenance contracts, the Transport Agency has amalgamated a number of contracts and secured economies of scale in “network outcome” contracts. Approximately seven of these new contracts have been completed and there are another 14 in progress. The Transport Agency told us that in the past, contractors have been risk-averse, leading to over-maintenance. The new contract model moves away from maintaining roads according to a schedule, towards maintenance responding to the condition of the road.

We also heard about the Transport Agency’s new network classification system, which sets performance measures for every road in New Zealand against a minimum required level of service. The expected level of service varies according to how busy particular roads are.

**Rail performance**

The operating surplus of KiwiRail Holdings Limited, before depreciation and grant income, was $77.5 million, compared with $108.2 million in 2012/13. The result was only 65 percent of the $120.1 million target. KiwiRail said it expects an operating surplus of $90–95 million at the end of the 2014/15 year, which is 82–86 percent of the target.

Most of KiwiRail’s revenue came from its freight business unit, which contributed $462 million to the total of $740.9 million. Rail transports about 16 percent of all freight, and 30 percent of exports. We heard that this is expected to increase until 2042 by two percent each year, and over the next three to four years, KiwiRail wants to increase its freight share to 20 percent.

In early 2014, asbestos was discovered in 40 new Chinese-made locomotives. The manufacturer accepted responsibility for the problem, and is removing the asbestos at KiwiRail’s Hutt workshops. Half of the locomotives have had their asbestos removed, and the other half will be worked on from April 2015, during the winter months, when freight volume is lightest. KiwiRail told us the total cost to the business of the asbestos was less than $12 million.

KiwiRail could not say whether workers who had arrived from China to fix the asbestos problem were paid at or above the minimum wage. Although these staff are employed by the manufacturer of the locomotives, some of us consider KiwiRail should ensure appropriate remuneration for staff working on its rolling stock in New Zealand.

We also heard that $7 million has been spent replacing sleepers that were rotting prematurely, and KiwiRail has spent $100,000 trying unsuccessfully to recover this from the suppliers. Despite this and the asbestos problem, KiwiRail assured us it is satisfied with
its procurement practices. We were told its procurement process manual has been updated
and it has a new dedicated procurement intranet site. We also heard KiwiRail is moving
towards standardising its assets and processes generally. It said that instead of seven
different types of locomotive, it wants only two; and instead of 65 different wagon types, it
wants three. This will help in areas such as maintenance and training. We will watch closely
KiwiRail’s performance in procurement.

We learnt that some property and freight contracts which were unfavourable to KiwiRail
are coming to an end and KiwiRail is seeking to improve its commercial margins in these
areas.

**Timeliness of ferries and trains**

KiwiRail failed to reach its on-time performance targets for scenic trains, premium freight
trains, and ferries. The latter two were affected by locomotives being taken out of service
to remove the asbestos, and the loss of a propeller from the *Aratere* ferry in late 2013.
However, we heard that almost all ferry sailings in December 2014 and January 2015 were
on time.

We were told the *Stena Alegra* is now making more crossings and KiwiRail hopes this will
ease the pressure on the *Aratere*. It considers the *Aratere* is a reliable ship, but it is working
at its limits.

KiwiRail achieved its target of 95 percent of Wellington metropolitan trains arriving within
five minutes of their due time, and this train service was considered by Australia Rail to be
the best in Australia or New Zealand. KiwiRail intends to communicate its success in these
areas to the public more effectively.

**Future of rail**

We asked about a commercial review of KiwiRail which was conducted by KiwiRail in
conjunction with the Treasury. It aimed to examine rail’s role in New Zealand’s economy
over the next 30 years, and to consider the most appropriate operating model. The review
examined every KiwiRail route, and provided a range of options for the Government to
consider. The review, which cost $800,000, was presented to shareholding Ministers in
December 2014 and is being considered by the Government and Treasury.

KiwiRail wants to see the growth of “intermodal freight villages” such as the transport
hubs near Christchurch, Palmerston North, Hamilton, and Auckland, where freight is
switched between different modes of transport. KiwiRail sees itself as a key partner,
owning the property involved and offering freight services.

KiwiRail said that one barrier to growth is the high export volume leaving the South Island,
but transport returning empty because of the small population there. The issue of our
uneven population also has social and economic impacts.

**Public transport**

The Transport Agency said it does not plan to invest in the early enabling works for
Auckland’s City Rail Link, a 3.5-km double-track underground railway.

The project proper is due to start in 2020, or in 2017 if rail patronage and employment in
the central city increase to the targeted extent. Rail passenger trips have increased to 12.5
million trips per year, and KiwiRail is confident the target of 20 million will soon be
reached. However, we are aware that a 25 percent increase in employment in the central business district is unlikely because of a lack of office space there.

We heard about technology helping to improve public transport services and increase patronage. We heard about the success of the integrated ticketing system in Auckland, which could form the basis of similar systems in other cities. We also heard about online, real-time public transport schedules, integrated links between buses and trains, and “park and ride” options.

We note KiwiRail’s interest in providing a new commuter train service between Hamilton and Auckland should local and central governments commission one. Some of us are disappointed that no formal analysis was made comparing the Waikato Expressway project with a commuter train service between Hamilton and Auckland.

**Long-distance passenger trains**

Passenger numbers on the Tranz Alpine railway between Christchurch and Greymouth are at their highest since before the Canterbury earthquakes, with almost 9,000 more passengers in 2013/14 than in 2012/13. The Coastal Pacific service between Picton and Christchurch transported about 2,000 fewer passengers. KiwiRail speculated that other infrastructure elements may be needed before passenger numbers on this tourist service increase. Along with the Northern Explorer between Wellington and Auckland (which transported 32,144 passengers: about 1,500 more than in 2012/13 but almost 23,000 fewer than in 2011/12), KiwiRail considers the Coastal Pacific “sub-marginal.” It is trying to run the passenger trains more efficiently to save fuel.

Patronage has dropped on the Capital Connection line, between Palmerston North and Wellington, and we were told it needs another 100 passengers per day to be financially viable. Some of us consider it should be run as a commuter service rather than as a tourist service, so that it could be funded as public transport.

**Cycle paths**

A cycle infrastructure programme is funded as part of the National Land Transport Programme. In addition, an extra $100 million over the next three years is allocated for urban cycleways in the Government Policy Statement on Land Transport. A third funding stream is investment from local authorities, and in total, the Transport Agency estimates that about $300 million over the next three years will be available for urban cycleways.

**Safety**

**Road safety**

Work under the Safer Journeys Action Plan included lowering breath and blood alcohol limits for adult drivers, reviewing drink-drive sanctions, developing speed management initiatives, making electronic stability control compulsory for all new motor vehicles, identifying 100 high-risk intersections, and reviewing drug-driving enforcement. Options have also been explored for removing less safe vehicles more quickly from the national fleet, but no major proposals were made. The ministry said the average age of our vehicle fleet is over 13 years: very old, compared with those of other developed countries.

We were told that the increase in road deaths between 2013 and 2014 would be considered in an evaluation of the Safer Journeys Action Plan and any causal factors that might be found could be included in the next Safer Journeys Action Plan.
We were told that six percent of crashes involve visiting drivers, mainly from Australia and the United Kingdom, and part of the Safer Journeys Action Plan is a project dealing with safety in relation to visiting drivers. It was initiated in response to the difficult road conditions in some popular tourist regions, and the increasing number of international visitors who drive. The project involves the Transport Agency, local authorities, the New Zealand Police, and industry representatives working to find strategies for improving road safety for international and domestic visitors travelling in the lower South Island.

**Rail safety**

KiwiRail told us that a sector working group has been established to (among other things) improve the safety of level crossings. Bells or barriers control about half of New Zealand’s 1,300 level crossings, and new bells or barriers are installed at 15 to 20 additional crossings each year. In Auckland, we heard, KiwiRail, the Transport Agency, and Auckland Transport are cooperating to make crossings safer. We note KiwiRail mentioned new bridges as a possible design solution for some crossings.

KiwiRail had 17 percent fewer lost time injuries in the 12 months to February 2015. Over the same period there was a 51 percent reduction in the total injury rate, and the KiwiRail unit responsible for line maintenance and renewals had an injury-free period in the second quarter of 2014/15. We were also told of safety improvements in train control.

However, KiwiRail acknowledged a cultural problem regarding safety, which it said it is working to change; it could take three to five years. KiwiRail said that in New Zealand generally, work health and safety is poor, particularly compared with Australia. KiwiRail believes this is an issue for businesses throughout the country. It was suggested that part of the solution could be customers and suppliers insisting on high safety standards in their contracts.

We heard about KiwiRail’s site-specific “hazard action teams.” There are 40 such teams, each including elected and appointed KiwiRail staff, plus on-site contractors or customers. The teams are responsible, for example, for hazard registers. KiwiRail intends to give them also responsibility for reducing hazards, with a budget to do so, and it expects the teams to share their lessons with the organisational hierarchy.

We will continue to watch KiwiRail’s safety performance.
Appendix

Committee procedure
We met on 4 and 9 December 2014, 12, 19, and 26 February, 12, 19, and 26 March, and 2
April 2015 to consider the annual review of the Ministry of Transport, the New Zealand
Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways
Corporation. We heard evidence from the Ministry of Transport, the New Zealand
Transport Agency, KiwiRail Holdings Limited, and the New Zealand Railways
Corporation, and received advice from the Office of the Auditor-General.

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

Julie Anne Genter was present for most of this item of business.

Evidence and advice received
Office of the Auditor-General, Briefing on New Zealand Railways Corporation and
KiwiRail Holdings Limited, dated 26 February 2015.

Office of the Auditor-General, Briefing on the Ministry of Transport and the New Zealand

Transport sector briefing paper, prepared by committee staff, dated 18 February 2015.

KiwiRail Holdings Limited, Responses to pre-hearing questions 131–176, received 2
February 2015.

KiwiRail Holdings Limited, Post-hearing responses, received 17 March 2015.

Ministry of Transport, Responses to pre-hearing questions, received 2 February 2015.

Ministry of Transport, Post-hearing responses, received 12 March 2015.

New Zealand Railways Corporation, Responses to pre-hearing questions 131–133, received
2 February 2015.

New Zealand Railways Corporation, Response to post-hearing questions 1 and 2, received
9 March 2015.

New Zealand Transport Agency, Responses to pre-hearing questions 1–173, received 2
February 2015.

New Zealand Transport Agency, Post-hearing responses, received 12 and 19 March 2015.
2013/14 Annual review of the Lakes District Health Board, the MidCentral District Health Board, the South Canterbury District Health Board, the Tairawhiti District Health Board, and the Taranaki District Health Board

Report of the Health Committee

The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Lakes District Health Board, the MidCentral District Health Board, the South Canterbury District Health Board, the Tairawhiti District Health Board, and the Taranaki District Health Board.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Simon O’Connor
Chairperson
2013/14 Annual review of Landcorp Farming Limited

Report of the Primary Production Committee

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Appendix 6
Landcorp Farming Limited

Recommendation

The Primary Production Committee has conducted the annual review of the 2013/14 performance and current operations of Landcorp Farming Limited, and recommends that the House take note of its report.

Introduction

Landcorp Farming Limited is a State enterprise which was established in 1987. It is New Zealand’s largest farmer, employing 692 staff and producing milk, beef, sheep, and deer for global supply. Landcorp owns three subsidiaries: Landcorp Estates Limited, Landcorp Holdings Limited, and Landcorp Pastoral Limited. It also has a joint venture with Shanghai Pengxin.

Steven Carden is chief executive of Landcorp, and Traci Houpapa is acting chair. The responsible Ministers of Landcorp are the Minister of Finance and the Minister of State-Owned Enterprises.

Financial performance

In 2013/14 Landcorp reported a net operating profit of $30 million, compared with $12.9 million the previous year. In its annual report Landcorp attributed this large increase to favourable growing conditions and strong product prices in the year under review. We congratulated them on this result.

Industry leadership

Recruitment and workforce capability

We were interested in the work Landcorp undertakes to attract people into the farming workforce. Landcorp’s shareholder has established its priority as maximising its commercial outcomes. However, Landcorp recognises industry training as an area which benefits it at the same time as the wider industry. We heard about training programmes Landcorp runs, including a dairy academy which is being set up in partnership with Shanghai Pengxin to build assistant farm manager expertise, where we understand there is a gap in the current market. Landcorp is seeking to broaden the public perception of farming in New Zealand, making it more positive and emphasising that it offers career pathways.

We drew attention to the high staff turnover in the dairy industry. Landcorp acknowledged that this is a major problem, with churn especially high at the farm assistant level. Landcorp said that the best way to address this problem is to attract good people into the sector by showcasing career pathways in agribusiness. A number of initiatives are being undertaken to this end; for example, Landcorp is partnering with DairyNZ to speak to school students, and seeking to create a better working environment with more attractive hours.

We asked if recruitment and retention would improve if wage rates were increased by at least $10 per hour. Landcorp said this would undermine the profitability of its business. It also argued that money alone was unlikely to alter the turnover trend. Landcorp considers that the new generation of workers are motivated differently, and often want to enter farm
management without first acquiring experience as farm assistants. Therefore the Landcorp board is discussing new ways to attract young people into farming. We will continue to watch developments in this area with interest.

**Standard setting**

As New Zealand’s largest farmer, Landcorp could naturally be perceived as setting the benchmark for the industry. We were told that Landcorp has recently been striving for more transparency regarding its objectives and progress against them, and the challenges it faces. Landcorp said its research and development work will ultimately benefit the entire industry. However, it believes there is a risk of setting standards unreasonably high for smaller operators who may not share its advantages. It therefore keeps up a regular dialogue with industry groups.

**Business practices**

We asked whether Landcorp’s contract supply of milk to Fonterra could undermine the cooperative model. Contract suppliers secure a higher price per kilo of milk solids than farmers in the cooperative and we suggested that Landcorp as a large corporate farmer could influence a shift in the dairy industry away from cooperatives. Landcorp argued that this opportunity is available to all of Fonterra’s suppliers, and ultimately it needs to maximise its shareholder return in a sustainable way.

**Corporate responsibility**

We asked whether Landcorp perceives return to shareholders as the main benefit to the community from its operations. Landcorp conceded that it is predominantly a corporate farmer; however, it pursues opportunities to benefit local communities, such as providing school buses on the East Coast, training, and education. Some of us expressed a view that Landcorp could be contributing more to New Zealand farming in general. Some members felt strongly that Landcorp could produce working examples that could benefit smaller-scale and family farmers, in particular.

**Overseas investment and partnerships**

We asked Landcorp if it is facilitating foreign ownership of rural land in New Zealand through its partnerships. Landcorp said that less than 10 percent of its farms were owned by overseas investors. However, the company considers that good business partnerships are the best way of expanding its farming base without expending its own capital.

We heard that Landcorp has entered into partnership with Māori businesses and iwi in Northland, the Bay of Plenty, and the Wairarapa. Landcorp is seeking other New Zealand-based investors, but believes that not much of the locally available capital is likely to be invested in corporate-level agriculture. We consider that this may be a side-effect of the higher cost of capital for local investors.

We asked whether Landcorp could adopt a policy of entering into partnerships with New Zealand investors only as a “public good” consideration. Landcorp said that this would require an explicit direction from its shareholder, and again that it was constrained by the level of the local investment directed towards agriculture. Landcorp also points out that overseas investors are required to provide additional support to industry, and this is enforced by the Overseas Investment Office.
Attracting New Zealand-based investment

We drew attention to Landcorp’s relatively low return on capital for the period under review. Landcorp said that commodity prices were volatile, so returns needed to be assessed over a longer period rather than from year to year; on this basis its performance has been high. Landcorp admits that its performance could be improved by increasing its operating yield and reducing the number of assets it manages. However, it is not convinced that higher returns would attract more New Zealand investors, because of the high cost of capital.

Environmental sustainability

We were interested in Landcorp’s environmental outlook. Landcorp asserted that it is an “environmentally savvy” farmer, and perceives this as serving the interests of both the environment and the industry. We heard that large sums are being spent by Landcorp towards achieving two environmental targets, which are a quarter of its success measures: “climate neutrality” by 2025, and reducing the amounts of nutrients lost below the root zone. Landcorp has undertaken an ambitious programme of planting up to 1,000 hectares per year and admitted that this goal may be challenging. It has also set up four trial farms using alternative farming systems, and will test whether better environmental outcomes are compatible with increased profitability.

Community engagement

Landcorp is attempting to engage communities by fronting up to concern about the environmental impact of farming. We noted that Landcorp was present at community meetings about dairying impacts on the Manawatu River. This led to the signing of the Manawatu River Accord, which Landcorp is a party to. Landcorp is determined to show environmental leadership and engagement at the community level. It believes this will help to change the perception of farming being environmentally damaging.

Agricultural diversity

We understand that corporate farming sometimes produces monoculture, which can increase the use of pesticides and lead to a lack of ecological diversity. Landcorp said it has four agronomists who are dedicated to improving the diversity of Landcorp’s future agronomic programme. We encourage Landcorp to continue to work towards a more sustainable farming model.

Sheep milk

We asked about Landcorp’s plans for milking sheep. Landcorp said sheep milk is an “exciting” niche product which is more environmentally sustainable than cow dairying because it uses less water and creates less run-off. It has purchased 3,000 high-lactating ewes and is likely to import genetic expertise from Israel to at least double its production. Sheep milk is highly nutritious and Landcorp is determining what products can be sold in overseas markets. We heard, for example, about ice cream and yoghurt in Japan, and probiotic and “life-stage” formulas in the United States and Europe.

We asked whether Blue River Dairy, which is backed by an overseas investor, would be a strong competitor. Landcorp believes the competition from Blue River would be minimal as it was likely to focus heavily on supplying formula to China.
Primary Growth Partnership programmes

We asked about the value being derived from the Primary Growth Partnership programmes that Landcorp is involved in. We heard about FarmIQ, a cloud-based farm management system that links farm data to the supply chain. FarmIQ analyses market information and feeds it back to the farmers to help them focus on producing products in demand. We were told that this system breaks down the current silos of supply-chain data in the industry. Landcorp said that FarmIQ was over halfway into a seven-year programme; however, it was still too early to determine whether it would deliver the forecast $300 million in industry benefits.
Appendix

Committee procedure
We met on 19 February and 19 March 2015 to consider the annual review of Landcorp Farming Limited. We heard evidence from Landcorp Farming Limited and received advice from the Office of the Auditor-General.

Committee members
Ian McKelvie (Chairperson)
Todd Barclay
Hon Chester Borrows
Steffan Browning
Barbara Kuriger
Hon Damien O'Connor
Richard Prosser
Stuart Smith
Meka Whaitiri

Evidence and advice received
Landcorp Farming Limited, responses to written questions, received 5 February and 2 March 2015.
Organisation briefing paper, prepared by committee staff, dated 16 February 2015.
2013/14 Annual review of the Law Commission

Report of the Justice and Electoral Committee

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Law Commission

Recommendation

The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Law Commission, and recommends that the House take note of its report.

Introduction

The Law Commission is an independent Crown entity established under the Law Commission Act 1985 to review, reform, and develop the law of New Zealand. In particular, it produces reports making independent recommendations on law reform. These reports are tabled in Parliament.

The commission is a small organisation with four commissioners and 24 employees (excluding the commissioners).

Financial and service performance management

In 2013/14, the revenue of the commission was $4.138 million, and its total expenditure was $4.367 million, resulting in a deficit of $229,540 (in 2012/13 the commission reported a smaller deficit of $154,129). The commission is endeavouring to achieve a balanced budget by July 2016.

The Office of the Auditor-General rated the Law Commission as very good for its management and control environment, an improvement on its rating in 2012/13 following the resolution of deficiencies. The commission received a rating of good for its financial information systems and controls, below the very good rating it received for 2012/13. The Auditor-General recommended that the commission improve its record-keeping practices. The commission’s service performance information and associated systems and controls were rated as needing improvement. The Auditor-General recommended that the commission establish formal processes for measuring performance, defining measures and targets clearly.

Progressing the commission’s work

The commission is concerned that although legislation has been developed in response to a number of its reports recently (for example, the Judicature Modernisation Bill and the Harmful Digital Communications Bill) other significant pieces of work such as the Land Titles, Trusts and Incorporated Societies report have not been actioned, despite Government support. The commission suggested that government departments do not always act swiftly to progress its recommendations, and that the parliamentary process could be improved to move important legislation more rapidly through the process, particularly where infrastructure and social development are concerned.

We asked which items of work the commission would prioritise, and heard that although the commission considers all of its work as being necessary and is keen to see all of its recommendations enacted, it recognises that it is up to the Government to prioritise particular pieces of work.
We asked whether the commission instigates its own work. The President explained that legally the commission can initiate work, but its work programme is determined in consultation with the Minister who takes into account the Government’s priorities. The commission would need additional resources to initiate work outside of this predetermined work programme. Sometimes the commission is asked to do work urgently, for example recently on cyberbullying, and its work programme then has to be rejigged, which can cause practical difficulties.

**Capacity and quality**

We heard that the commission is stretched and at present cannot progress four pieces of work referred to it because of a lack of resources. When Hon Sir Grant Hammond took over as its president, the commission had financial reserves which allowed it to undertake additional work. The commission’s operating reserve has now been used up, which has curtailed its capacity to undertake projects. At 1 July 2016 the commission is expecting to have around $500,000 in equity reserves. We heard that demand for the commission’s services makes it hard for the organisation to rebuild its reserves.

Acting on advice from the Office of the Auditor-General, the commission is having the quality of its work assessed externally.

**Library**

We asked about the considerable investment in the modernisation of the commission’s library. The improvements mean that information can now be accessed online, making staff more productive and reducing the cost of maintaining the traditional library.

**Work programme**

The commission’s work programme was confirmed by the Minister of Justice on 18 February. We asked about its review of measures to protect classified and security-sensitive information during civil and criminal court proceedings. The United Kingdom is also undertaking work in this area.
Appendix

Committee procedure
We met on 19 February and 19 March 2015 to consider the annual review of the Law Commission. We heard evidence from the Law Commission and received advice from the Office of the Auditor-General.

Committee members
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Law Commission Annual Report, 2013/14
Organisation briefing paper, prepared by committee staff, dated 17 February 2015.
Law Commission responses to committee questions, dated 13 February 2015
2013/14 Annual review of the Museum of New Zealand Te Papa Tongarewa Board

Report of the Government Administration Committee

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**Museum of New Zealand Te Papa Tongarewa Board**

**Recommendation**

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the Museum of New Zealand Te Papa Tongarewa Board, and recommends that the House take note of its report.

**Introduction**

Te Papa is an autonomous Crown entity under the Crown Entities Act 2004 and is governed by the Museum of New Zealand Te Papa Tongarewa Act 1992. Te Papa’s main functions include collecting works of art and items relating to history and the natural environment; developing, conserving, and housing its collections; and providing an education service relating to its collections.

The Office of the Auditor-General rated the Crown entity’s management control environment as “needing improvement”, as it did the previous year.

**Financial management**

Te Papa’s revenue is primarily received from the Crown (Vote Arts, Culture and Heritage), commercial revenue, and exhibition income. Its total income in 2013/14 was $54.972 million, and total expenditure $63.672 million, resulting in a net deficit (after depreciation) of $8.7 million.

The 2013/14 budget forecast a deficit after depreciation of $4.397 million. In November 2013 the board was first alerted to concern that the deficit would exceed budget. We heard that at this point the board froze hiring, and commissioned PricewaterhouseCoopers to create a turnaround plan and introduce immediate measures to manage costs more effectively.

In January 2014 the board was advised that the deficit, after depreciation, was likely to be between $12 and $14 million. Ultimately a deficit, after depreciation, of $8.7 million was achieved.

We appreciate that considerable work went into reducing the deficit from a possible $14 million to $8.7 million, but remained concerned that such a substantial blow-out of its budget could occur. We heard contributing factors included two exhibitions losing $2 million, increased staff costs, cost increases throughout the organisation that were not included in reports to the board, and a $1.5 million accounting issue relating to depreciation, which was carried over from the previous financial year.

We note that the budget for contractors also increased and heard that this was due to the development of an asset management plan, and circumstances that required specific expertise.
Depreciation

Historically, depreciation has not been funded by the Government. This has meant that, while Te Papa usually posts a (nominal) surplus, it is always wiped out by depreciation costs. We are pleased that Te Papa intends to engage with the Government seeking ongoing funding of depreciation, having received a one-off capital injection of $8 million in Budget 2014, and we will keep an eye on progress.

Exhibitions and collections

In total there were 24 exhibitions (13 at Te Papa, eight touring New Zealand, and three touring around the world) during the financial year. We heard that, barring the two that lost money, they fared well. The art of picking a “winning” exhibition strikes us as inexact, and we were interested to hear that preparatory research includes viability, although two exhibitions nevertheless lost money. We were pleased to hear that international sharing of pertinent data may improve the accuracy of estimates of viability.

The board said there are no plans to sell any parts of the museum’s collections, but said that periodic de-acquisition is a normal part of collection management.

Chief executive

On 30 April 2014 it was announced that Mike Houlihan would leave his position as chief executive to take up a 12-month secondment as a special advisor on military heritage with the Ministry for Culture and Heritage. Some of us thought it unusual that Te Papa continued to pay his salary once he had taken up the secondment. We note that the payments ceased once Mr Houlihan resigned from his special advisor role.

1 Museum of New Zealand Te Papa Tongarewa, Annual report 2013/14, p. 9.
Appendix

Committee procedure
We met on 25 February and 1 April 2015 to consider the annual review of the Museum of New Zealand Te Papa Tongarewa Board. We heard evidence from the Museum of New Zealand Te Papa Tongarewa Board and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Musuem of New Zealand Te Papa Tongarewa Board, Responses to annual review questions, received 17 February and 31 March 2015.
Organisation briefing paper, prepared by committee staff, dated 10 February 2015.
# 2013/14 Annual review of the Nelson Marlborough District Health Board

Report of the Health Committee

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Nelson Marlborough District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2013/14 performance and current operations of the Nelson Marlborough District Health Board, and recommends that the House take note of its report.

Introduction

The Nelson Marlborough DHB provides or funds health and disability services for people in Nelson and the Tasman and Marlborough districts. The population of the area is 136,995; since 2006 the proportion of the district’s population aged 65 or over has increased from 14.6 percent to 18.6 percent. 1

The DHB’s total income in 2013/14 was $434.174 million, and its total expenditure was $429.782 million, resulting in a surplus of $4.392 million. 2

Financial recovery

The Nelson Marlborough DHB moved from a deficit of $2.9 million in 2012/13 to a surplus of around $4.4 million in 2013/14. 3 In January 2013 it was placed in Intensive Monitoring by the Ministry of Health because of its deteriorating financial performance. Its performance improved to the point where its status was revised to Performance Watch and then Standard Watch early in the 2014/15 financial year. 4

The DHB told us it formed a financial recovery committee in 2013/14 and developed a recovery plan to reduce its financial deficit rapidly. We asked if it had made cuts to quality and services in order to do so. The DHB said it is difficult to measure quality, but that it is investigating ways to do so, and as far as it knew no services were cut; managers and clinicians found ways to be more efficient rather than reduce activity. For example, the DHB told us it saved money by treating patients in its own region, thus reducing costly inter-district flows.

The DHB said that positive partnerships between clinicians and managers, in areas including primary care, had been crucial to the DHB’s financial recovery. It also said that all staff had been encouraged to take ownership of planning and prioritising budgets, which resulted in the whole organisation being committed to resolving its financial difficulties. We congratulate the Nelson Marlborough DHB for turning around its financial situation so quickly and successfully in 2013/14. We were also pleased to note that the DHB has reported high patient satisfaction.

2 Ibid, p. 57.
3 Ibid, p. 4.
Top of the South Service Review

In May 2014 the Nelson Marlborough DHB released the Top of the South Service Review Report. The report looked at the provision of 24/7 acute and elective services at Nelson and Wairau hospitals. The report favoured a “one service, two sites” delivery model, to provide equitable access to services whether patients live in Marlborough, Nelson or Tasman.

In the past the Marlborough community had been concerned that Wairau Hospital would be closed. The DHB said commitments to the Wairau community and hospital as a result of the review process have now allayed this fear.

One service, two sites

The DHB noted that before the review the hospitals in Wairau and Nelson had been perceived and treated as independent. The development of a “one service, two sites” model has required a cultural change, eliminating “tribalism” from the relationship between the regions and hospitals. We heard that clinicians from both sites have weekly meetings to discuss difficult cases; the use of videoconferencing has made this easier. Working partnerships, especially between lead clinicians and managers, have been strengthened.

The way services are delivered across the region has been changed to improve access for all patients. For example, where there was previously no access to ear, nose, and throat services in Marlborough, a specialist now regularly visits the region. The DHB told us it wants to ensure that its service is not perceived as Nelson-based. For example, it no longer requires its executive team members to live in Nelson.

Churchill Private Hospital Trust

The Churchill Hospital is a private hospital that works with the Nelson Marlborough DHB. We heard that the location of the Churchill Hospital on the Wairau Hospital campus allows for the sharing of facilities such as operating theatres and that it contributes to the DHB’s overheads. We understand one of the purposes of the Churchill Hospital is to attract specialists to the Marlborough region and the DHB confirmed that it has made it easier to recruit staff.

The DHB said the Churchill Hospital has rebuilt its surgical staff after recent bad publicity about its surgical services. It is now seeking to recruit an additional surgeon.

Oral health

We were pleased to hear that last year the Nelson Marlborough DHB was the first DHB to ban sugar-sweetened drinks from its own cafeterias and vending machines. It also successfully lobbied the Nelson City Council to ban the sale of sugary drinks at its events venues. The DHB told us that reducing access to sugar would improve oral health, particularly of children, and it was proud to have taken a lead in restricting access to sugar.

The DHB told us that oral health and health inequities in the region would be substantially improved if fluoride were added to the region’s drinking water. This is the most effective way of ensuring fluoride reaches the teeth of all children. The DHB said it planned to lobby for fluoridation in the coming year. We support the DHB’s stance, and will monitor its progress.

We asked the Nelson Marlborough DHB how it manages its oral health service. The DHB said it has moved from school-based services to a system that requires children to travel to
one of a number of hubs. It said that it enrolls all children in its oral health service at birth but ten percent of children nevertheless “did not attend” an annual appointment. We were pleased to hear that the DHB is looking at a new initiative to improve access to oral health services for Māori. We were interested in its resistance to labelling people “hard-to-reach”, preferring to conclude that it needs to make its services easier to access.

**Care of the elderly**

Nelson Marlborough has an ageing population, with 18.6 percent aged 65 years or older. However, the DHB said the elderly in the region tend to be healthier than in the rest of the country. We asked about the mental health needs of the elderly in Golden Bay. The DHB said Golden Bay presented unique access difficulties, and that the DHB has made a commitment to providing community-based services to the area. The DHB said it was working with the Ministry of Health and ACC regarding the sustainability of Te Whare Mahana, a residential Golden Bay facility that treats people with emotional health issues. However, it noted that people from outside the region use Te Whare Mahana so it is not within the DHB’s control.

**Top of the South Health Alliance**

We were pleased to hear that the DHB works with Nelson Bays Primary Health and Kimi Hauora Wairau Marlborough Primary Health Organisation under the Top of the South Health Alliance. It told us it is collaborating with the alliance on initiatives including improving radiology services, reducing emergency department presentations, healthcare pathways, and an electronic referral system.

**South Island Alliance**

We noted that although the Nelson Marlborough DHB is part of the South Island Alliance, of which Canterbury is the tertiary centre, many of its tertiary referrals are to Wellington services. The DHB said that tertiary referrals must make clinical sense and it can be faster to fly to Wellington rather than Christchurch.

**Immunisation**

The DHB said that in the last quarter of the year its immunisation rates were at 88 percent. It has very effective follow-up processes for immunisation, which the Ministry of Health uses as a model. However, there is also an active anti-immunisation group in Nelson Marlborough, whose choice not to immunise their children affects the DHB’s rates. We heard that the DHB tries to support people who choose not to immunise by providing them with information and offering them opportunities to keep talking about immunisation.

**Māori health**

According to the 2013 census 9 percent of the Nelson Marlborough population were Māori. The DHB told us it works closely with its Iwi Health Board which has members from the region’s eight iwi. The Iwi Health Board monitors the health disparities between Māori and non-Māori in the region. The DHB told us $2.9 million is allocated for Māori health provision in the region, but that it spends approximately $50 million on health services for Māori.

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We heard that a new provider called Te Piki Oranga has replaced the seven Māori health providers previously operating in the region. Te Piki Oranga will introduce a Whanau Ora framework to Nelson Marlborough. The DHB said it was difficult to get information to monitor its performance in Māori health outcomes, and acknowledged that it could improve this aspect of its reporting.

**Suicide**

We were interested to hear that the DHB receives coronial notification within 48 hours of a suicide in its region. The DHB then puts support in place for the bereaved and analyses information and data so that services can be more preventative and responsive.
Appendix

Committee procedure

We met on 11 March and 1 April 2015 to consider the annual review of the Nelson Marlborough District Health Board. We heard evidence from the Nelson Marlborough District Health Board and received advice from the Office of the Auditor-General.

Committee members

Simon O’Connor (Chairperson)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Carmel Sepuloni
Scott Simpson
Barbara Stewart

Evidence and advice received

Nelson Marlborough District Health Board, Responses to written questions, received 6 and 27 March 2015.


Organisation briefing paper, prepared by committee staff, dated 10 March 2015.
2013/14 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 financial review of the 2013/14 performance and current operations of the New Zealand Antarctic Institute, and recommends that the House take note of its report.

Introduction

Antarctica New Zealand is the trading name of the New Zealand Antarctic Institute, a Crown entity established by the New Zealand Antarctic Institute Act 1996. New Zealand signed the Antarctic Treaty in 1959, undertaking to keep the Antarctic continent devoted to peace and science. Antarctica New Zealand is responsible for New Zealand’s activities in Antarctica and the Southern Ocean, and in particular the Ross Dependency. The organisation is based in Christchurch and manages Scott Base, New Zealand’s research station in Antarctica.

Antarctica New Zealand’s Chief Executive is Peter Beggs and Brian Roche is Acting Chairman of the board.

The organisation is funded to deliver Foreign Affairs and Trade Non-Departmental Output Class 01, Antarctic Research and Support. In 2013/14 Antarctica New Zealand’s total income was $16.1 million ($200,000 less than the previous year) and its total expenditure was $14.8 million, resulting in a surplus of $1.3 million. The previous year’s surplus was $1.1 million.

Access by air

The past season was particularly busy for Antarctica New Zealand with 12,000 bed nights recorded, compared with 9,000 the previous season. This reflected the many science events held at Scott Base over the year, and building work at the base.

Antarctica New Zealand found it difficult to meet its commitments regarding its joint logistics arrangement with the United States, because Civil Aviation Authority restrictions on the use of the New Zealand Defence Force Boeing 757 to transport passengers meant that the aircraft was only used once. We also heard that the Hercules aircraft being wheeled aircraft cannot always land in certain weather conditions, and 20 percent of their scheduled flights could not proceed.

Charter aircraft are also flown to Scott Base; we heard that chartering an Airbus from the Australian Antarctic Division for a return flight from Christchurch costs about $290,000. We learned that weather conditions cause 40 percent of all flights to be cancelled. Antarctica New Zealand is reviewing the future of its air access, which is critical to its work.

Condition of the runway

We asked about the condition of the Pegasus runway, Scott Base’s main runway, which is located on a permanent ice shelf. The runway attracts black dust from nearby Black Island.
Combined with 24-hour sun, and oil and dust contamination from aircraft operations, this has caused it to deteriorate, despite constant grooming and repair. Under the joint logistics arrangements the US is responsible for the Pegasus airfield. The two existing alternative runways require ski-equipped planes which are very expensive and rare.

We asked Antarctica New Zealand how it will ensure access to New Zealand’s base in the future and heard that it is working with the New Zealand Defence Force to make sure it understands the organisation’s needs, and is intending to continue to make use of charter aircraft. Antarctica New Zealand has been considering making more use of helicopters in its contribution to the logistics pool.

**Antarctic Environments Portal**

We asked about the cost of the online portal, which is designed to simplify Antarctic science for decision-makers, and how it is managed and operated. The total cost of the portal is about $1 million, of which Antarctica New Zealand contributed half. The Norwegian Antarctic Programme, Australia’s Monash University, and New Zealand’s Landcare Research have also made financial contributions. New Zealand would like many countries to be involved in the portal, but recognises that it needs to be a neutral resource that is not politically aligned. An editor uploads academic articles to the portal.

**Chinese Antarctic Programme**

We asked about New Zealand’s relationship with the Chinese Antarctic Programme, and heard it described as an emerging relationship. New Zealand provided advice on the construction of a Chinese base at Inexpressible Island, and has shown the Chinese how New Zealand operates in Antarctica. In return China provided Antarctica New Zealand with the services of its research vessel and visited Christchurch for resupply, including refuelling to the value of $500,000.

**Andrill**

We asked whether the Antarctic Geological Drilling programme (Andrill) has any future. We heard that the original project to understand glacial and interglacial changes in the Antarctica region has been completed and a proposed second project as contemplated a year ago will not go ahead because the United States has decided not to provide funding or logistical support for it. However, we were assured this will not stop New Zealand from considering leading other drilling projects in cooperation with the international community, if alternative sources of support and funding are forthcoming.
Appendix

Approach to this financial review

We met on 12 March and 26 March 2015 to consider the financial review of the New Zealand Antarctic Institute. We heard evidence from the New Zealand Antarctic Institute and received advice from the Office of the Auditor-General.

Committee members

Mark Mitchell (Chairperson)
David Bennett
Hon Phil Goff
Dr Kennedy Graham
Dr Shane Reti
Jami-Lee Ross
David Shearer
Fletcher Tabuteau
Lindsay Tisch
Dr Jian Yang

Evidence and advice received

New Zealand Antarctic Institute, response to written questions received 19 February and 23 March 2015

Office of the Auditor-General, Briefing on the New Zealand Antarctic Institute, dated 12 March 2015

Organisation briefing paper, prepared by committee staff, dated 5 March 2015.
2013/14 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 2013/14 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 an autonomous Crown entity established under the Social Welfare (Transitional Provisions) Act 1990. Previously known as the New Zealand Artificial Limb Board, the service’s name was legally changed in late 2013.

The service provides and maintains prosthetic limbs for amputees in New Zealand, manufacturing about 700 new limbs each year and performing almost 16,000 services to prosthetics for its 4,300 clients. It also provides rehabilitative services to maximise individual use of prosthetics, and carries out research and development in relation to artificial limbs. Currently, the service operates limb centres in Wellington, Auckland, Hamilton, Christchurch, and Dunedin, while also holding clinics in other regions at regular intervals.

In 2013/14 the service’s total income was $8.902 million and its total expenditure was $8.15 million, resulting in a surplus of $752,000. The Office of the Auditor-General rated the service’s management control environment, financial information systems and controls, and service performance information and associated systems and controls as “very good”.

Fiscal challenges

The service has not received a substantial increase in funding in recent years. Although the number of new amputees in New Zealand each year remains largely the same, we heard that the service faces a variety of fiscal challenges. For example, there are challenges associated with the service’s property arrangements, and with recent technological advances resulting in more expensive prosthetics.

Property arrangements

The service does not own the premises out of which it operates its limb centres. It has rental and lease arrangements in place with the Ministry of Social Development and District Health Boards for these sites. We heard that, as these larger organisations attempt to find savings in their own budgets, the service feels increased pressure to fund maintenance and upgrades to the buildings it occupies. The service, which receives most of its funding to provide services to clients via the Accident Compensation Corporation and District Health Boards, does not receive funding for the purpose of carrying out building maintenance and repairs.

The service told us that it would ideally receive financial support to allow it to vest ownership of its properties, and that it estimates it would require approximately $5 to $6 million over the next 3–5 years to achieve this goal. We understand that the majority of amputations in New Zealand occur as a result of illnesses, including diabetes and vascular
diseases as opposed to trauma events. Given that diabetes and vascular disease disproportionately affect Māori and Pacific Island communities, we asked the service whether it has considered shifting its limb centres closer to the areas where large numbers of people in those communities live, such as South Auckland. We were told that the service is thinking carefully about where its facilities should be located in future, particularly if it is to invest in its premises.

Maximising investment in prosthetics

The service noted that technological advances in prosthetics continue to lead to better, but substantially more expensive, limbs entering the market. An example given was that of a model of leg prosthetic that cost approximately $85,000 in 2014, where the 2011 model had cost $55,000.

We were interested in how the service manages client expectations about the quality of prosthetics they will receive. The service noted that there is a widening gap between client expectation and the funding available for prosthetics and support services. We were concerned to hear that a “two-tier-type inequity” has emerged, with clients funded via ACC often receiving more funding, and therefore better quality prosthetics and services, than those funded via District Health Boards.

We were told that all clients can be assured that they will receive a quality limb, but that the service tends not to purchase the latest, most advanced prosthetic components available, preferring to wait until they have been properly tested so that they are assured of quality. The service has independent research on its performance undertaken every two to three years; we were pleased to learn that the latest research indicated that 95 percent of the service’s client base were either “satisfied” or “very satisfied” with the service being provided.

In order to maximise its investment in prosthetics the service is also leading an approach to provide integrated services to amputees. We heard that, in order to have prosthetics last as long as possible, it is important that clients have a rehabilitation plan in place soon after the limb is fitted, and are connected with physiotherapy, and other necessary rehabilitative services, early on. The service considers that it is in a good position to coordinate the provision of a “wrap-around” service to clients and it is currently working to reduce the amount of time between the fitting of prosthetic limbs and the availability of services for clients.

We commend the service for the ongoing and important work it does for amputees in New Zealand.
Appendix

Committee procedure
We met on 18 February and 1 April 2015 to consider the annual review of the New Zealand Artificial Limb Service. We heard evidence from the New Zealand Artificial Limb Service and received advice from the Office of the Auditor-General.

Committee members
Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Stuart Smith
Louisa Wall
Poto Williams

Evidence and advice received
Office of the Auditor-General, Briefing on the New Zealand Artificial Limb Service, dated 18 February 2015.

New Zealand Artificial Limb Service, Responses to written questions, received 5 February and 12 March 2015.
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Recommendation

The Health Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Blood Service and recommends that the House take note of its report.

Introduction

The New Zealand Blood Service (NZBS) is a Crown entity established under the New Zealand Public Health and Disability Act 2000 and funded through Vote Health. Its purpose is providing safe, timely, high quality, efficient blood and blood products services, including organ and tissue donor and stem cell services. The service’s strategic goals include managing a sustainable donor population, maintaining the highest possible safety and quality standards, and providing products and services appropriate to New Zealanders’ health needs and priorities. Its board reports to the Minister of Health.

Financial and service performance management

NZBS’s total revenue for 2013/14 was $104 million and its total expenditure was $103.1 million (3.65 percent less than the previous year), resulting in a net surplus of $0.86 million.

We acknowledge the work of departing Chief Executive Fiona Ritsma and congratulate both her and the service on its performance in 2013/14. We commend NZBS for the excellent and vitally important service it provides.

Changes in demand

Demand for red blood cells has declined by 17 percent since 2010. There are a number of reasons for this, including blood conservation programmes initiated by DHBs. We heard that this has affected NZBS significantly, resulting in the closure of regional donor centres in Napier and Nelson, which will now be serviced by mobile units.

NZBS told us it is proud that it is self-sufficient for most of its plasma-derived fractionated products, particularly immunoglobulin. However, an increasing demand for immunoglobulin products means this model will be reviewed over the next two years.

Donor recruitment

NZBS constantly reviews its donor criteria and recruits to ensure that it meets demand for blood and blood products. We heard that digital recruitment targeting specific blood types is proving particularly effective. Various recruitment campaigns are run throughout the year, and communities are targeted rather than the whole country.

NZBS told us that people who lived in the United Kingdom, France or the Republic of Ireland between 1980 and 1996 for a cumulative six months or more, or received a blood transfusion in any of these countries since 1980, are still excluded from donating blood.

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1 New Zealand Blood Service annual report 2013/14, p. 4.
2 Ibid, p. 33.
products. Their exclusion is still recommended internationally because of the risk of transmission of variant Creutzfeldt-Jakob disease by blood transfusion. There are no completely reliable screening tests for use before the onset of symptoms of the disease, which is uniformly fatal.

**New products**

We were particularly interested in the use and development of synthetic blood. We heard that much of the coagulation factor product already used in the management of haemophilia is synthetic. However NZBS does not believe that there will be a significant move towards the use of synthetic red cells, platelets or clinical plasma for a long time. We heard that promising synthetic alternatives had failed at the clinical trial stage because of scientific and technical challenges and cost issues.

We also asked whether NZBS works with the Pharmaceutical Management Agency (Pharmac) on new blood products. NZBS said that, while Pharmac’s activities are distinct from its own, the agencies work closely when necessary, for example when a Pharmac initiative may affect demand for the service’s products.

**Fractionating blood in Australia**

NZBS sends donor plasma to CSL Behring in Australia for fractionation, which involves the extraction, separation, and purification of proteins. Blood products manufactured from the fractionated plasma are then returned for use in New Zealand. We asked NZBS if New Zealand blood was being re-fractionated separately from Australian blood. NZBS said that it was, under a long-standing policy initiated by the Commonwealth governments and supported by the Australian regulator. Parts of the plant used in the manufacturing processes are held separately for Australia.

We heard that two distinct fractionation columns had been segregated. One of the two is now shared by Australia and New Zealand, but the other will remain separate for the foreseeable future. We asked whether this reflected a lack of joint regulation; NZBS said that it was not clear that a joint regulatory authority would overcome this practice of segregation, as it appears to be a political issue rather than one of safety.
Appendix

Committee procedure
We met on 11 February and 1 April 2015 to consider the annual review of the New Zealand Blood Service. We heard evidence from the New Zealand Blood Service and received advice from the Office of the Auditor-General.

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

Evidence and advice received
New Zealand Blood Service, responses to written questions, received 5 February and 19 February 2015.


Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
2013/14 Annual review of the New Zealand Lotteries Commission

Report of the Government Administration Committee

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New Zealand Lotteries Commission

Recommendation

The Government Administration Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Lotteries Commission, and recommends that the House take note of its report.

Introduction

The New Zealand Lotteries Commission is a Crown entity whose revenue derives mostly from lottery sales. Its gross profit in 2013/14 was $286.925 million and total expenses were $60.768 million, resulting in a profit of $226.157 million.

Any profits are transferred to the New Zealand Lottery Grants Board for distribution. In 2013/14 a total of $231.157 million was transferred, consisting of a $226.157 profit and a $5-million special distribution from the sale of the commission’s Auckland premises.

After the transfer of profits to the grants board, the commission had a deficit of $6.211 million.1

Information technology

In July 2014 the commission moved its primary data centre off-site after selling its Khyber Pass Road property and moving to new rental premises. We were pleased to learn that the transition went smoothly and that the commission’s technicians can access the centre at any time should any issue arise.

Responsible gaming

The commission’s goal is to provide safe gambling that contributes money to New Zealand communities. The World Lottery Association sets the international benchmark for responsible gaming, and during the 2013/14 financial year it certified the commission’s responsible gaming programme to Level 3 of a four possible levels. The commission is one of three lotteries in the Asia Pacific region to be certified to Level 3, and we were interested to hear that it is working towards higher certification. We congratulate the commission on obtaining the Level 3 ranking and urge it to continue its efforts to obtain the Level 4 ranking.

As the commission has the largest retail network in New Zealand, we asked about the potential for its operators to incentivise gambling. It said it operates a programme that assists retailers with brand value, the promotion of which it believes discourages operators from engaging in adverse activity such as the incentivising of gambling. It said this includes giving retailers specifics about funding the commission disburses to their local areas to help create connections with their communities.

1 New Zealand Lotteries Commission, Annual report 2014, p. 20.
Appendix

Committee procedure

We met on 18 February and 25 March 2015 to consider the annual review of the New Zealand Lotteries Commission. We heard evidence from the New Zealand Lotteries Commission and received advice from the Office of the Auditor-General.

Committee members

Hon Ruth Dyson (Chairperson)
Sarah Dowie
Brett Hudson
Mojo Mathers
Mark Mitchell
Adrian Rurawhe

Evidence and advice received

New Zealand Lotteries Commission, Responses to annual review questions, received 30 January 2015.

Office of the Auditor-General, Briefing on the New Zealand Lotteries Commission, dated 18 February 2015.

Organisation briefing paper, prepared by committee staff, dated 10 February 2015.
2013/14 Annual review of the New Zealand Symphony Orchestra

Report of the Government Administration Committee

The Government Administration Committee has conducted the financial review of the 2013/14 performance and current operations of the New Zealand Symphony Orchestra and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Hon Ruth Dyson
Chairperson
2013/14 Annual review of the New Zealand Tourism Board

Report of the Commerce Committee

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New Zealand Tourism Board

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Tourism Board, and recommends that the House take note of its report.

Introduction

The New Zealand Tourism Board (Tourism New Zealand) is a Crown entity established under the New Zealand Tourism Board Act 1991. Its primary purpose is to develop, implement, and promote strategies for tourism, and to advise the Government and the New Zealand tourism industry on related matters.

In the 2013/14 financial year, the board’s income was $123.692 million (compared with $91.712 million the previous year). Most of the revenue ($113.730 million) comes from the Crown. It has nearly 160 staff and has 14 offices, two in New Zealand and the rest around the world. It told us that in the year under review there was a 6.1 percent increase in international visitors, and holiday spending was up 16.4 percent. It was also the first year of a $123-million budget increase, to be spread over four years.

The Hobbit films

During the year in review, the second Hobbit film had its premiere. We were told that a New Zealand Institute of Economic Research report showed that this was one of the reasons for the increase in tourist numbers in the year, and the board’s own research estimated that the film was one of the reasons 12 to 14 percent of visitors had decided to come to New Zealand, nearly three times the equivalent numbers for the Lord of the Rings films.

Given the impact of the Hobbit films on the New Zealand economy, we asked what was being done to encourage interest in the franchise now that the trilogy is completed. We heard that there is potential for a film museum in Wellington backed by Sir Peter Jackson; but the board said it also needs to make sure the “100% Pure New Zealand” campaign evolves, because it cannot rely indefinitely on promoting past films.

We also asked what film might represent the next big opportunity for New Zealand, and heard that the upcoming Disney film Pete’s Dragon, which is currently being filmed in New Zealand, is one the board hopes can be leveraged well to benefit the country.

Premier tourism

The board told us that they prefer to focus on value (visitors staying longer and spending more) over numbers, and a key area of focus for them is the “premier sector”, serving tourists in the 5-star+ accommodation bracket. The board now has a dedicated global premium sector team, and has invited 28 premium media outlets and 40 premium travel agents to experience, report back on, and sell New Zealand as a destination. We heard that a record number of super-yachts and private jets had arrived in New Zealand, and the revenue from “super-lodgers”, which are luxury lodge accommodations, had increased.
The board also reported a new focus on areas of special-interest tourism, such as the cycle trails, food and wine, and golf.

With such a large investment being made in the premium sector, we wondered if this was the best way to get the most “bang for the buck” from tourists. The board told us that in fact the youth sector is the biggest group, and makes up about 23 percent of visitors; they are mainly from Germany but also the United Kingdom, they tend to stay for a long time, and they love the outdoors. Easy access to outdoor recreation is promoted to the youth market, and to the “silver surfers” age bracket.

**Regulation of adventure tourism**

As many younger visitors come to New Zealand for adventure tourism, we asked if the board was concerned about the regulation of the sector, or had noticed any decline in numbers because of it. We were told that the vast majority of adventure tourism operators have been audited and have passed, and those that have not cannot continue to offer adventure tourism activities until they do. Businesses in this sector are audited every year to maintain high safety standards. The board strongly supports the Government’s introduction of regulations in this area, as it is reputationally important for New Zealand.

**Target markets**

The board said it is focusing particularly on the emerging markets of Latin America, Indonesia, and India. In India, the board has increased its staff from one person to four; they work with Education New Zealand and New Zealand Trade and Enterprise, and have seen a “phenomenal response” to promotion of New Zealand education and tourism. The board considers Indian visitors ideal tourists, because they travel in family groups, travel throughout the country, and typically come in the “shoulder seasons” of spring and autumn, rather than the peak times; the alliance between Air New Zealand and Singapore Airlines is also helping, as single-ticketing facilitates their travel.

**Major events**

New Zealand’s hosting of major events, such as its current co-hosting of the ICC Cricket World Cup, has major benefits. While it is too early to say how many international visitors have come for the Cricket World Cup, the board estimates 30,000–40,000. They have attracted around 200 international media representatives, who “have been excellent in projecting New Zealand destination messages” in their coverage of the World Cup. The board will work hard to leverage and maximise positive media exposure from the upcoming FIFA under-20s, the World Masters, and the Lions tour. We heard that royal tours draw significant media attention to New Zealand, which in turn benefits New Zealand tourism. When Prince William and the Duchess of Cambridge visited New Zealand last year, the board made sure the media saw as much of the country as possible, as well as following the Royal couple.
Appendix

Committee procedure
We met on 19 and 26 March, and 2 April 2015 to consider the annual review of the New Zealand Tourism Board. We heard evidence from the New Zealand Tourism Board and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
New Zealand Tourism Board, Responses to written questions, received March 2015.
Office of the Auditor-General, Briefing on the New Zealand Tourism Board, dated 19 March 2015.
Organisation briefing paper, prepared by committee staff, dated 11 March 2015.
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New Zealand Trade and Enterprise

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of New Zealand Trade and Enterprise, and recommends that the House take note of its report.

Introduction

New Zealand Trade and Enterprise (NZTE) is a Crown entity, which was established under the New Zealand Trade and Enterprise Act 2003. Its purpose is to increase domestic companies’ export performance to stimulate New Zealand’s economic growth.

In the 2013/14 financial year, NZTE’s total income was $170.680 million, and its total expenditure was $172.621 million, resulting in a deficit of $1.941 million. The board is chaired by Andrew Ferrier and Peter Chrisp is the chief executive.

Export growth

The New Zealand Government has set the goal of increasing exports as a proportion of GDP from 30 to 40 percent by 2025. New Zealand’s exports are projected to represent 26 percent of GDP by 2025 if the current trend continues, and we asked NZTE why relative to GDP export performance is not improving proportionately. NZTE told us that the export targets were ambitious when they were set, and are aspirational; they said that they cannot achieve it if they do not set high targets and they believe the targets are realistic in the long term.

NZTE works only with certain companies that require assistance in international markets. We heard that they are performing well; last year NZTE’s export revenue for the entire portfolio grew by 1.3 percent on average, and the export revenue from companies valued under $500 million grew on average by 5.3 percent. Factors that affect export revenue include variables such as exchange rates, commodity prices, and the weather, which cause constant fluctuations; and the target figure itself is constantly changing, as GDP itself rises.

We heard that NZTE encourages domestic competition. It suggested that New Zealand’s domestic market needs to continue to upskill and become more ruthlessly competitive in order for its export growth to flourish. At the same time, however, NZTE has been encouraging companies to form coalitions, joining particular overseas markets together to secure economies of scale. We heard that these coalitions are starting to gain traction in overseas markets, and 23 of them are operating at present. NZTE told us that the Government had funded it to “unlock the bottleneck” for growth, and provided them the resources to spread their international footprint and take on 200 more companies. Nevertheless, they acknowledge it is very difficult for New Zealand companies to grow internationally because of our size and location.

Focus 700

NZTE has a group of 500 companies with which it engages intensively, with the long-term goal of doubling their export growth. In 2013/14, NZTE gained funding to increase the
group to 700 businesses, the “Focus 700”. We heard that NZTE wants 100 of the new companies to be from the ICT field by mid-2017, and hopes that they will ultimately form a third of Focus 700 companies. We will continue to monitor their progress in this area.
Appendix

Committee procedure
We met on 12 and 26 March 2015 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. The advice, evidence, and transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
New Zealand Trade and Enterprise, Responses to written questions, received March 2015.
Office of the Auditor-General, Briefing on New Zealand Trade and Enterprise, dated 12 March 2015.
The Local Government and Environment Committee has conducted the annual review of the 2013/14 performance and current operations of the New Zealand Walking Access Commission, and has no matters to bring to the attention of the House. The committee recommends that the House take note of its report.

Scott Simpson
Chairperson
2013/14 Annual review of the Northland District Health Board

Report of the Health Committee

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Northland District Health Board

Recommendation
The Health Committee has conducted the annual review of the 2013/14 performance and current operations of the Northland District Health Board, and recommends that the House take note of its report.

Introduction
The Northland District Health Board (DHB) delivers health services to a large geographical area: from Te Hana in the south to Cape Reinga in the north, with a population of 151,689. Its population is largely rural and has one of the highest deprivation rates in New Zealand. A high percentage of its population is over 65-years-old. A growing number of people in the area suffer from long-term medical conditions. Māori comprise 30 percent of the population and there are significant health inequities between non-Māori and Māori.

Financial and service performance
The Northland DHB’s total income in 2013/14 was $534.638 million, and its total expenditure was $534.556 million, resulting in a surplus of $82,000.1

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

Redevelopment of facilities
The Northland DHB told us it has been concerned about capacity constraints in its emergency department, acute mental health facilities, and operating theatres. The ageing Whangarei Hospital campus, which is on a physically challenging site, is currently being redeveloped to address these concerns. Developments include a new maternity unit, an increase in the number of operating theatres, an expanded emergency department, and new kitchens.

Mental health
The Northland DHB told us it spends ten percent of its funds on the provision of mental health services and that acute mental illness places increasing demands on its services and facilities. The DHB also said it sees the impact of alcohol, drugs and sexual abuse on the mental health of families in the district.

We asked the DHB about constraints on its mental health services. It said that occupancy of its acute psychiatric inpatient unit (IPU) was at 100 percent for most of the 2013/14 year and its sub-acute facilities were also generally full. The DHB sometimes needs to use the services of Auckland DHBs for acute mental health patients. It funds and uses non-governmental organisation services and community centres for sub-acute patients. The

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1 Northland District Health Board annual report 2014, p. 68.
DHB provides beds for children, youth, and geriatric patients in its IPU in order to cover the spectrum of acute mental health patients. We support this innovative approach.

The DHB told us that Māori and young Māori men in particular suffer from a high rate of mental illness in Northland. In 2013/14 Māori males aged 20 to 29 years of age accounted for ten percent of IPU utilisation but were only 1.56 percent of the Northland population.2

**Oral health**

We were interested in the Northland DHB’s management of its oral health programmes. It told us that it operates a “hub and spoke” model of oral healthcare; it has hub facilities at seven fixed sites and 12 mobile units that visit 93 sites throughout its large region. Ensuring children from rural areas attend an annual oral health check has proved challenging for the DHB. It told us that every child under 12 years old has access to an annual oral health check in Northland, however this service does not have 100 percent uptake. Eighty-eight percent of enrolled children and adolescents were seen in 2013/14.3

The DHB said that evidence shows oral health would be improved if fluoride were added to Northland’s drinking water. In the past the DHB has lobbied for fluoridation, and it told us it intends to repeat this campaign. We support the DHB’s stance, and will monitor its progress. Because there is no fluoride in the water the DHB’s oral health service paints fluoride varnish onto children’s teeth. We heard this was effective but time-consuming.

The DHB said that reducing access to sugary drinks and food would improve oral health outcomes, as well as decreasing diabetes and obesity rates. The DHB took on a leadership role last year by banning sugar-sweetened drinks from its on-site cafeterias and vending machines. The DHB said that using a similar approach to that taken for tobacco could be used to cut people’s sugar intake.

We were pleased to hear that the DHB works closely with schools and private dentists to improve oral health in the region.

**Information technology**

As part of improving communication and linkages between primary care and hospital services the Northland DHB is running pilot projects for a secure messaging system and patient portals that will allow patients to book appointments, request repeat prescriptions, and check test results online. We were pleased to hear that IT is integral to the DHB’s delivery of services to its dispersed population.

Telehealth, a video conferencing service providing secure video links for appointments between centres, is being used by outpatient clinics across the Northland region. Research is taking place to evaluate how effective it is for acute care. Using Telehealth, patients do not have to travel long distances to see specialists for renal and paediatric services, for example. We are concerned that the isolated communities of Te Kao and Te Hapua in the far north are not connected to Telehealth and that remote communities could be missing out on technological advancements due to the cost of connections.

**Inter-sector collaboration**

The DHB is a member of the Northland Intersectoral Forum along with other local and central government agencies, including the Ministry of Social Development and Housing

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2 Northland District Health Board annual report 2014, p. 54.
3 Ibid, p. 48.
New Zealand. The forum aims to work together to improve Northlanders’ wellbeing. The DHB is also a member of the forum’s Social Wellbeing Governance Group subcommittee. We suggested the inclusion of early childhood education as part of the Well Child schedule and the DHB was receptive to this idea. By sharing, collating and analysing information the group is able to respond to demand at a local level and inform strategic planning. The group is currently focusing on youth suicide, family violence prevention, and improving outcomes for vulnerable children. We support the DHB’s involvement in inter-sector collaboration.

**Staffing**

The DHB has four hospitals, in Whangarei, Dargaville, Kawakawa, and Kaitaia. It also funds a small hospital in the Hokianga. Visiting specialists travel to district hospitals to provide services such as cardiology that cannot be covered by the district hospitals. The DHB flies specialists to Kaitaia every day. Kaitaia now has a resident anaesthetist for the first time in a number of years.

The DHB told us it has reasonably good staff retention and is only experiencing recruitment problems in general surgery and gastroenterology. It said it has a rigorous, values-based recruitment process and will only hire if it finds the right person.

We were pleased to hear that the DHB is developing a rural hospital medicine training programme to help attract, train, and bond rural hospital medicine specialists. The DHB told us it is considering building a combined undergraduate and postgraduate clinical training centre and developing research into health inequities. This would be another attraction for potential staff.

“Grow our Own” and Pukawakawa are two programmes the DHB has been involved with to recruit and retain staff in its largely rural region. Grow our Own provided study scholarships to 47 Māori staff or students in 2013. Pukawakawa is a joint Northland DHB and University of Auckland rural immersion programme for year five medical students. The DHB told us that many of the Pukawakawa participants end up returning to work in Northland after graduating.

The DHB has developed a close relationship with NorthTec, Northland’s polytechnic. It now employs approximately 60 of NorthTec’s nursing graduates every year. In the past it has recruited nurses from overseas but this is no longer necessary.

**Initiatives**

“Fit for Life” is a programme focusing on healthy lifestyles and reducing obesity. We asked the DHB if it was targeting the programme at specific areas. It said it had initially run a pilot in conjunction with Sport Northland in 12 decile one to three schools. It hopes to expand the programme to all decile one to three schools next year. The DHB said the pilot showed improved fitness times for running 400 metres and marginal results for reduced waist circumferences.

We asked the DHB what the vision is for its Neighbourhood Healthcare Homes project. It told us that the project involves a proactive network of general practices and primary and community health services working in new ways to improve patients’ healthcare experiences. Developments include secure information sharing and collaborative models of care. The project is focusing on high risk patients and families.

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We were pleased to hear that the DHB commissioned an external Patient Safety and Quality Review in October 2013. The review contained 75 recommendations to improve services, which are being addressed by clinical staff.

**Rheumatic fever**

We asked the DHB how it is reducing the number of rheumatic fever cases in Whangaroa. It told us that a community-based throat swabbing programme in the area has improved rheumatic fever screening. It said that having an effective medical leader and active community involvement also made this programme successful.

We know that inadequate housing and poverty can lead to poor health outcomes including rheumatic fever. We were pleased to hear that the DHB contributes to the Manaia PHO (primary health organisation) which works collectively with other organisations to provide insulation to high-need Northland homes.

**Under-13 healthcare**

Last year the Northland DHB started funding free doctors’ visits and prescriptions for children aged under 13 years old. The DHB knew only a set amount of funding would be required for this scheme as a free nationwide service for all under-13s will be rolled out in 2015. The DHB said it had removed barriers to access by providing free visits and prescriptions. We were pleased to hear the Northland scheme is proving successful and that there has been a ten percent increase in service use and a reduction of around ten percent in emergency department presentations for this age group.

**Population-Based Funding Formula**

Prior to the 2013 census the DHB campaigned in its communities to emphasise the importance of enrolling in the census so that health funding accurately matches the population. The DHB told us the campaign was successful. It will now be receiving greater funding starting in 2015/16 due to its population numbers increasing in the 2013 census.

**Rural hospices**

Northland has four hospices, in Whangarei, Kaipara, Mid-North, and Kaitaia. We asked the DHB how it supports the three rural hospices. It said that sustainability is the biggest challenge for its small rural hospices and that it balances funding across the palliative care service. The DHB told us the recently expanded Mid-North hospice is not currently sustainable and the Kaipara hospice is slightly over-funded.
Appendix

Committee procedure
We met on 11 March and 1 April 2015 to consider the annual review of the Northland District Health Board. We heard evidence from the Northland District Health Board and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Northland District Health Board, responses to written questions, received 6 and 20 March 2015.
Office of the Auditor-General, Briefing on the Northland District Health Board, dated 11 March 2015.
Organisation briefing paper, prepared by committee staff, dated 9 March 2015.
2013/14 Annual review of the Privacy Commissioner

Report of the Justice and Electoral Committee

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**Privacy Commission**

**Recommendation**

The Justice and Electoral Committee has conducted the annual review of the 2013/14 performance and current operations of the Privacy Commission, and recommends that the House take note of its report.

**Introduction**

The Office of the Privacy Commissioner is an independent Crown entity. Its core role is to administer the Privacy Act 1993, and it seeks to develop and promote a culture in which personal information is protected and respected.

In the year under review, it received a total income of $3.913 million, an increase of 0.27 million from 2012/13. It employs 33 full-time-equivalent staff. The current Privacy Commissioner is John Edwards.

**Review of Privacy Act 1993**

In 2011 the Law Commission completed a major review of the privacy laws and in May 2014 Cabinet announced its intention to adopt most of the Law Commission’s recommendations for revitalising the Act. We asked the commissioner about his expectations for the law reform.

The three principal policy initiatives that are to be incorporated into the rewritten Act would be the creation of a mandatory responsibility for agencies to report material data breaches to the commissioner, and to notify affected individuals of serious breaches; giving the commissioner the power to order agencies to comply with the law; and empowering the commissioner to order agencies to provide personal information to requesters where there is no lawful basis for withholding it.

We look forward to the legislation being introduced into Parliament.

**Adequacy of privacy safeguards**

The commissioner did not yet have full assurance that adequate privacy protection considerations were being satisfactorily designed into government IT systems to protect against data breaches. The commissioner has engaged Price Waterhouse Coopers to update its privacy impact assessment tool kit, which IT system developers and agencies can use to recognise risks at the design stage. Often the potential for breaches is built into a system’s functionality, and can be very hard to remove by the time the vulnerabilities become apparent in operation. The commission is supporting the new position of Government Chief Privacy Officer, whose role is to lead an all-of-government approach to privacy and build capability and assurance.

The commissioner’s ability to keep abreast of emerging technologies that can affect privacy is limited, although he can contract specialised expertise when the need arises. It has
recently appointed a deputy commissioner with experience in digital rights management, who also serves on the board of Internet New Zealand. It also has regular meetings with major communications and software providers and maintains connections with privacy agencies in other jurisdictions to help keep abreast of rapidly changing technology.

**Performance targets**

We noted the variances from the commissioner’s performance targets. We were pleased that 88 percent of complaints were completed or settled within 9 months, against a target of 80 percent, but also note that only 60 percent of complainants rated their complaints handling as satisfactory or better, against a target of 80 percent. We asked the commissioner the reasons for the shortfall, and what he was doing to improve performance.

The commissioner explained that he is reviewing the performance targets as some proved unhelpful. He suggested, for example, that nine months was much too long a timeframe for the settlement of most. The commission said it wanted complainants and respondents to take more responsibility for reaching resolution, with its own role limited to setting parameters and explaining the legal position in most cases. Where this was not possible, the commissioner wanted his staff to decide as quickly as possible whether a privacy breach had occurred, speeding up access to the Human Rights Review Tribunal and the judicial process.

At present the commissioner has no powers of enforcement, but the revised Privacy Act will confer power to make orders for the release of information. The commissioner believes this will increase trust and confidence in the system as people see effective remedies being delivered promptly. Staff would, he said, be encouraged to take risks and be innovative in the way they deal with complaints, which he conceded might indeed lead to mistakes. The commissioner was hoping to see an improvement in resolution times within a few months.

**Role in policy development**

We noted the commissioner’s responsibility to review legislation for privacy issues before it is enacted. The commissioner said it was working well in practice, although his role in this regard is not often recognised. All legislation with privacy implications is looked at, and when the commissioner does not make submissions to select committees on legislation he suggested this was probably because it had worked on the development of the legislation and was satisfied that any privacy concerns had been dealt with adequately.

The commissioner is seeking to increase the visibility of his work in this regard. For instance, when it has no concerns about legislation, the commission will nevertheless make submissions to select committees, noting its support for the proposed bill and detailing the contribution the commissioner had made to supporting privacy. We look forward to seeing more of this proactive approach to help select committees consider legislation, to reassure New Zealanders that the commissioner is assessing all legislation for any effect it may have on their privacy.
Appendix

Committee procedure
We met on 19 February and 12 March 2015 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
Jacqui Dean (Chairperson)
Jacinda Ardern
Chris Bishop
Marama Fox
Peeni Henare
Jono Naylor
Alfred Ngaro
Denis O’Rourke
James Shaw
Hon Louise Upston

Evidence and advice received
Privacy Commissioner, Statement of Intent.
Privacy Commissioner, response to select committee questions, received 13 February 2015.
Organisation briefing paper, prepared by committee staff, dated 17 February 2015
2013/14 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 2013/14 performance and current operations of Quotable Value Limited, and recommends that the House take note of its report.

Introduction
Quotable Value Limited is a State enterprise with three subsidiaries, Darroch Limited, QV Australia Limited, and New Zealand Valuation Limited. It also has a 40 percent share in CoreLogic NZ Limited.

Quotable Value Limited recorded an after-tax profit of $5.2 million for the 2013/14 year. It paid $8.32 million in ordinary and special dividends to the Crown, compared with $5.96 million the previous year.

Role and Crown ownership
Quotable Value Limited’s responsibility is to estimate the market valuations on property at fixed intervals. Quotable Value Limited does not influence the market. We heard that in recent years by international standards New Zealand properties have devalued very little on average as a result of the global financial crisis. Every report that Quotable Value Limited produces is qualified by a statement that it is Quotable Value Limited’s assessment at a point in time.

We asked for Quotable Value Limited’s perspective on its Crown ownership. The State-Owned Enterprises Act 1986 requires such businesses to have the principal objective of operating as a successful business, and “…to this end, to be—(a) as profitable and efficient as comparable businesses that are not owned by the Crown; and (b) a good employer; and (c) an organisation that exhibits a sense of social responsibility by having regard to the interests of the community in which it operates and by endeavouring to accommodate or encourage these when able to do so.” The chief executive assured us that Quotable Value Limited would do these things regardless of whether they were owned by the Crown or not.

We consider that Quotable Value Limited should be available to make comments about perverse incentives in the system such as real estate agents inflating the positives of a property, banks that make more money from lending more money, developers who make more money from current sales if they restrict future sales, and the issue of valuing leasehold property relative to freehold property. In its role as a mass-appraisal valuer Quotable Value Limited says it does not make such comments, as it wants to remain independent and trusted. We heard that if Quotable Value Limited were not owned by the Crown, it would be commenting on these issues in order to raise its profile. Quotable Value Limited said that 90 percent of its target market sees it as independent and 85 percent see it as trustworthy.

We heard that if Quotable Value Limited sees significant changes in property values in a particular area, it looks at the factors underlying the changes. Quotable Value Limited does
a lot of investigation and interpretation, analysing the background to sales in such areas, to
determine for example whether they are market sales and arms-length transactions, or
whether these conditions are skewed in some way.

**Overseas buyers**

We are concerned about the influence of overseas buyers on valuations in certain areas,
both rural and urban. We heard that Quotable Value Limited does not have any tools to
address the fact that by international standards New Zealand property is overvalued. As
overseas buyers are part of the market, we heard that they do not need to be factored
separately into valuations in an area.

We heard that Quotable Value Limited has been working with Land Information New
Zealand and the Overseas Investment Office to assemble data on overseas purchasers, in
order to take the emotion out of the debate. At present most residential properties
purchased by overseas buyers do not go through the Overseas Investment Office because
they do not reach the threshold required by the Overseas Investment Act 2005.

Quotable Value Limited considers that data is not available because a simple mechanism
for collecting the pertinent information has not been found. Quotable Value Limited
thinks that it may have found a solution, but it would require the Government to change
legislation. The changes that would be needed to facilitate the gathering of this information
include a definition of foreign ownership of residential property. Quotable Value Limited
considers that lawyers and conveyancers would be best placed to collect the data of such
transactions and provide it to Quotable Value Limited. We heard that capturing the data is
the only impediment to Quotable Value Limited using it to see if overseas buyers influence
the market in particular areas or indeed at all.

Quotable Value Limited considers that rural property and farmland ownership information
could be captured in this way too. At the moment such information is being collected by
the Overseas Investment Office because rural properties are of values high enough to
reach the thresholds.

We encourage Quotable Value Limited to work toward obtaining information on overseas
buying of residential property, so any related issues can be considered and resolved.

**Technology**

Quotable Value Limited believes that homeowners should be more informed about the
property decisions they make, and to this end it has just released a free application for
smart phones that can give real-time information from a photo of a property from the
street. It considers making this information available for people to make decisions about a
property is socially responsible. The application, which is called QV homeguide, has only
been available a short time. People using the application can have more information made
available for a small fee. The application contains free information including rating values
for houses and numbers of sales, and actual sales compared with the rating valuation for a
suburb. Information such as certificate of title information and natural hazards information
is also available on Quotable Value Limited’s website for a fee but it can be purchased
more cheaply through the application. Information that is bundled for purchase from the
website is available in parts through the application, at a proportionately lower price.

We heard that the application is part of a strategy to raise Quotable Value Limited’s profile
as current valuers; they are really well known for doing mass appraisals once every three
years. Quotable Value Limited is hoping to gain a greater share of residential valuations. We noted that within a few days of its launch there were 5,000 downloads of the application; we congratulated Quotable Value Limited on this result.

**Cultural value**

When activity in the Māori economy increased approximately 10 years ago, Quotable Value Limited tried to set up a Māori unit of experts who understood the difference that cultural value made to property values. Quotable Value Limited considered that this needed to be done for those lending money, and those borrowing money, and because the ownership structures of Māori land are different from others. However, the unit did not prove viable, so instead experts in this area are spread throughout the organisation. We heard that Quotable Value Limited undertakes a lot of valuations on Māori land, taking into account the ownership structure, the value this adds, and its implications for acquiring capital to invest in a property.

Quotable Value Limited is working with companies in the insurance industry on valuation methodologies for taonga on a marae. Traditional insurance does not deal with the replacement of things like carvings, as insurance takes into account only a monetary value. The latest notion is to insure the carvings for the amount of time it would take to re-carve the stories.

Quotable Value Limited still considers that there is a lot of potential value in understanding cultural value in its business. We encourage it to continue to explore this area.

**Australian subsidiary**

We heard that the Australian valuation market is very complicated and bureaucratic, and Quotable Value Limited only operates in New South Wales. Quotable Value Limited has a 20 percent market share and is twice as big as the next-largest provider. We heard that Quotable Value Limited appraises the CBD of Sydney, which provides 85 percent of the land tax in New South Wales. Quotable Value Limited’s Australian operation has derived value from its New Zealand operation in areas such as databases, so Quotable Value Limited does not need to invest a lot of time and energy in its Australian operation.

Quotable Value Limited is trying to persuade policymakers in New South Wales to allow the mandated valuation methodology to be changed, but so far it has not had any success. It believes that it could do the valuations in Australia for half the price using the same methodology as it does in New Zealand.

We heard that Quotable Value Limited’s Australian operation can scale up if business increases and requires it. There is the scope to do more in Australia and Quotable Value’s strategic alliance with CoreLogic could represent an opportunity. Quotable Value Limited sees the risks in operating in Australia as quite small and it has made a profit there every year since it entered the market.

**Objecting to valuations**

We are aware of an objection to the valuation of a property undertaken for a council by Quotable Value Limited. Following an inspection of the property its valuation was adjusted upwards by 35 percent. We heard that when applying the formula it uses to update mass appraisals for councils, Quotable Value Limited may not be aware of any work done to improve the property in the previous three years. It is notified of building consents from the council, but they usually take a year to be accounted for in the system, and only once
the consented work is finished. The objection process is a method by which homeowners can have their property reappraised if they feel the valuation does not fairly reflect any improvements.
Appendix

Committee procedure
We met on 12 March and 2 April 2015 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
Meka Whaitiri

Evidence and advice received
Quotable Value Limited, Responses to written questions, received 5 February and 26 March 2015.
Office of the Auditor-General, Briefing on Quotable Value Limited, dated 12 March 2015.
2013/14 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 2013/14 performance and current operations of Radio New Zealand Limited, and recommends that the House take note of its report.

Introduction

Radio New Zealand Limited, New Zealand’s only public-service broadcaster, is a Crown entity established under the Radio New Zealand Act 1995. It operates three nationwide networks: RNZ National, RNZ Concert, and the AM network, which broadcasts Parliamentary proceedings. Radio New Zealand has two shareholding Ministers, the Minister of Finance and the Minister Responsible for Radio New Zealand. The board of governors is chaired by Richard Griffin, and Paul Thompson is the chief executive.

Financial performance and funding

In 2013/14 Radio New Zealand received a total income of $38.959 million, and its total expenditure amounted to $38.946 million. It reported a net surplus of $150,000 (compared with $50,000 in 2012/13).

Radio New Zealand has performed well in this financial year without any increase in funding. It prides itself on working and growing within financial constraints; however, we heard that each year this task becomes more difficult. Radio New Zealand has achieved growth from some one-off opportunities and from its commercial assets; it expects some more growth from these assets to be possible, but not much. We heard that there have been no cuts in services or staffing caused by funding pressures.

Some of us raised concerns about funding for Radio New Zealand—frozen since 2008. It confirmed that it was “getting to the point where limited rations were getting more difficult to handle”. We heard that it had applied for an increase in the 2015/16 financial year.

We asked Radio New Zealand how it plans to grow further, and whether it had considered commercialising aspects of its service that have been non-commercial, for example by selling advertising on its website. We heard that providing its core services free of advertising is very important to Radio New Zealand; this is part of the networks’ value to New Zealanders. Radio New Zealand said it is obliged to consider any potential revenue earner outside of its core services that does not detract from its value. It told us that commercial advertising could apply to its digital platforms in the future. Radio New Zealand is also discussing its future funding with the Government.

Programming for ethnic audiences

New Zealand’s ethnic population has increased and we asked whether Radio New Zealand plans to create programming for ethnic audiences. We heard that Radio New Zealand views such programming as an important opportunity to reach more audiences, now that digital platforms allow it to create more tailored content.
We heard that increasing the diversity of its audience is one of Radio New Zealand’s key priorities over the next five years. We would like to see more diverse programming from Radio New Zealand.

Parliament TV

Radio New Zealand has been discussing the possibility of taking over the broadcasting of Parliament TV, but no memorandum of understanding has yet been signed. We asked whether Radio New Zealand’s proposal includes providing content for Parliament TV to screen during its unused hours. We heard that Radio New Zealand would require more funding to advance the proposal, and it was not one of its current priorities.
Appendix

Committee procedure
We met on 19 February and 12 March 2015 to consider the annual review of Radio New Zealand Limited. We heard evidence from Radio New Zealand Limited and received advice from the Office of the Auditor-General. The advice, evidence, and corrected transcript of the hearing are available on the Parliament website www.parliament.nz.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 12 February 2015.
Radio New Zealand Limited, Responses to written questions 1–127, received 11 March 2015.
Radio New Zealand Limited, Responses to written question 128–137, received 11 March 2015.
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Reserve Bank of New Zealand

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2013/14 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.

Scope of our annual review

At the time of our hearing the Reserve Bank was in the process of reviewing the Official Cash Rate (OCR) for its monetary policy statement on 12 March. At the bank’s request we refrained from questioning it about matters to do with monetary policy, interest rates, and economic specifics like the exchange rate and house prices, as its responses could have been interpreted by the markets as signalling its intentions regarding the OCR. We had a fuller discussion with the Reserve Bank on 12 March, and will be reporting to the House on the March monetary policy statement shortly.

Financial performance

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 5-year funding agreement will end on 30 June 2015.

In 2013/14 the Reserve Bank’s operating expenses totalled $60.5 million, 7 percent more than the previous year, but $1.9 million below the cap set in its funding agreement with the Government. The increase over the previous year’s spending was used to improve its capability, particularly in currency operations, and the security of its payment systems.

The bank’s net investment income in 2013/14 was $105 million. This was well below the previous year’s $356 million, mainly because the appreciating New Zealand dollar 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.

The bank made a net profit of $56 million in 2013/14, and paid a dividend to the Crown of $20 million. The previous year its profit was $308 million, with a dividend payout of $175 million.
Performance and improvements

We note that the Reserve Bank has consistently received ratings of “very good” from the Office of the Auditor-General for its management controls and financial information systems and controls, with no improvements recommended by the auditors. We commend it on its high standards.

The bank has nevertheless adopted several strategic priorities to improve its performance and reduce risks to the financial system, in addition to its usual activities. Features in 2013/14 included some internal changes to strengthen its governance and its management and staff capabilities, and work to broaden its public communications, improve its infrastructure, and reduce organisational risks.

Macro-prudential policy

The Reserve Bank placed particular emphasis on macro-prudential policy in 2013/14. It established a new macro-financial department in mid-2013, drawing together analytical capability from other parts of the bank to oversee the stability of New Zealand’s macro-financial system and to design and implement macro-prudential instruments. It had consulted publicly on the policy framework in March 2013, and signed a memorandum of understanding with the Minister of Finance in May 2013 about the policy’s use. In October 2013 the bank introduced a macro-prudential policy imposing restrictions on mortgage lending at high loan-to-value (LVR) ratios.

The governor explained that the measure reflected the bank’s mandate to maintain financial stability. As housing represents the major asset on the balance sheets of banks and households, the Reserve Bank had been concerned to see banks competing aggressively to lend to people with low deposits, and ratios such as house prices to disposable incomes getting well out of line with international and historic levels. With the likelihood that the supply imbalance would take a long time to address, the Reserve Bank felt it needed to act to reduce the risk to financial stability. Our discussion with the bank about this measure and developments in the housing market is covered below.

The bank’s prudential supervision department also made progress in 2013/14 on improving the prudential regulatory regime. It completed the licensing of insurance companies, and established arrangements for licensing all non-bank deposit-takers by 1 May 2015.

The housing market

Impact of LVR restrictions

In October 2013, in response to housing market pressures, the bank imposed limits on high-LVR mortgage lending. It has credited these restrictions with helping to slow house-price inflation and reduce risks to the financial system and the economy. We were told that the bank originally expected the measure to take about 2.5 to 3 percent off the rate of house-price inflation; in fact, it believes the effect has been larger. It notes that the volume of house sales has dropped by about 12 percent since the limit was introduced.

We asked whether the measure was affecting the type of housing being developed in Auckland, or the rental market. The bank said that lending for construction of new housing is exempt from the restriction. While there has been a small reduction in the proportion of mortgages going to first-home buyers, it does not believe the measure has affected the overall supply of housing or the type of housing available. As for the rental market, the
bank said rental prices have been increasing in Auckland, especially in some suburbs, but not as much as to suggest an acute housing crisis. It appeared more to indicate simply that supply was not keeping up with population growth.

**Housing supply in Auckland**

The Reserve Bank has estimated the backlog of housing in Auckland at roughly 15,000 to 20,000 houses at the end of 2014. We asked about the basis for its estimate, as we note that the Minister of Finance places the figure somewhat lower. The bank subsequently provided us with information about its methodology, which is based on census data about the number of dwellings, and an assumption about the number of people per dwelling. It says its approach is indicative only; it assumes that in the absence of constrained housing supply, the number of people per dwelling would fall gradually in response to demographic and other factors. The estimated shortfall assumes 2.9 people per dwelling; this, however, is below the density observed in Auckland in recent years, which has been increasing, but above the density seen elsewhere in New Zealand, which has been declining.

The governor noted that while the number of building consents has increased substantially over the past two years, to about 7,500 a year at present, this was still well short of the 10,000 new houses that the Auckland Regional Council has suggested will be needed annually for the next 30 years. We noted that figures for building consents may not give a true picture of building activity, as consented projects are not always carried out. After our hearing the Reserve Bank provided us with the data it used from Statistics New Zealand indicating that the conversion rate for Auckland—that is, the proportion of consents that result in actual dwellings—is relatively high, at about 99 percent.

We asked the governor to elaborate on his recent public comment that much more needs to be done to ease the housing situation in Auckland. The governor said some very good work has been done to open up new areas for housing in Auckland, but it is a major challenge to get houses built quickly enough to ease the shortage. Also, since a lot of the new housing areas are on Auckland’s periphery, the transport costs and lack of infrastructure might make them less attractive for people to move to. In his view, work is needed to address the height restrictions in inner Auckland and the “not in my back yard” syndrome. He endorsed the Government’s move to have the Productivity Commission examine issues relating to zoning decisions, approval processes, and regulatory reform, and said he looked forward to the outcome.

Asked what the bank sees as the role of government in increasing housing supply, the governor said he was not best placed to comment, but believed it might make sense to release some of Housing New Zealand’s current housing stock while ensuring that people on low incomes were the beneficiaries of State investment in social housing.

**The impact of foreign capital**

We asked whether the Reserve Bank has robust data about the effect of overseas buyers and foreign capital inflows on house-price inflation in Auckland. The bank said it does not know what data is collected by Land Information New Zealand; the only data it is has seen about foreign ownership was from the Bank of New Zealand and the Real Estate Institute of New Zealand, which has since been discontinued and was probably not very reliable.

Some of us believe it would be helpful for the Government to collect such data, and note that in comparable cities where data is available, overseas foreign capital has been shown to have a big impact on house-price inflation.
Settlement services

The Reserve Bank operates two systems for settling financial transactions, ESAS and NZ Clear. It is inviting external parties to register interest in replacing these systems. We asked about the implications and risks of a move to an external provider, and were told that it is still undecided whether the bank will remain the provider of settlement services or an alternative provider will be selected; this should become clearer in late April. In either case, the Reserve Bank would continue to operate the real-time gross settlement system.

Currency

The Reserve Bank has for some time been planning for the issuance of a new, replacement series of banknotes. It has now signed contracts for their design and printing with the Canadian Bank Note Company. The notes are scheduled to come into circulation in the final quarter of 2015. We were told that the new notes will cost about $80 million over five years; the net cost, however, is only $40 million, as the bank would have incurred expenses to carry on printing the current series. The new notes will incorporate more secure design features. We understand that the costs will be taken into account when the bank negotiates a new funding agreement with the Minister of Finance for the five-year period from July 2015.

The value of currency in circulation at the end of June 2014 was $4.88 billion, nearly 6 percent more than a year earlier.
Committee procedure

We met on 25 February and 25 March 2015 to consider the annual review of the Reserve Bank of New Zealand. We heard evidence from the Reserve Bank and received advice from the Office of the Auditor-General.

Committee members

David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Evidence and advice received

Office of the Auditor-General, Briefing on Reserve Bank of New Zealand, dated 25 February 2015.

Briefing paper, prepared by committee staff, dated 23 February 2015.

Reserve Bank of New Zealand, Responses to written questions dated February and March 2015.
Appendix B

Transcript of hearing of evidence 25 February 2015

Members
David Bennett (Chair)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Stuart Nash
Fletcher Tabuteau
Grant Robertson
Jami-Lee Ross
Alastair Scott
David Seymour

Witnesses
Reserve Bank of New Zealand
Graeme Wheeler, Governor
Geoff Bascand, Deputy Governor
Mike Wolyncewicz, Chief Financial Officer
Bernard Hodgetts, Head of Macro-Financial Stability

Bennett Just before we start, you’re coming to see us again in a few weeks’ time, so members are well aware that the questioning may be somewhat limited today, but they’ll probably just go for it anyway. So feel free to be quite firm if you feel that you don’t need to answer that. It’s just that, for the media and that, we’ve got the Monetary Policy Statement coming up in a couple of weeks’ time, so it’s just to keep that open.

Cosgrove I hope you feel more confident now the chairman’s bolstered his advice—advice I don’t think you need.

Bennett Just to make it clear to everyone, OK. So we’re in your hands if you want to give us a bit of an intro and then we’ll have some questions.

Wheeler Thanks very much, chair. [Introductions] Let me be brief. In terms of the financial performance, the Reserve Bank reported a profit for 2013/14 of $56 million, and a dividend of $20 million. A dividend payout meant that the bank was able to maintain its strong capitalisation. The annual report outlines 10 strategic priorities for the period 2013-16, so I won’t go into those. But let me just itemise quickly just a few events during the year.

We established a macro financial department to lead the analysis and advise on macro-prudential policy. Our prudential supervision department completed the licensing of insurers and put in place a regime for licensing
non-bank deposit takers. It also reviewed the payment system oversight regime.

Our financial services group initiated a review of the payment system to develop a road map for systems prior to our undertaking, or possibly undertaking, major investment. Meanwhile, we ensured that our existing systems, ESAS and NZClear, met the demand of daily transactions, worth almost $26 billion.

Our currency and property services department signed contracts with the Canadian Bank Note Company Ltd for the design and printing of new seventh series banknotes that are due to be circulated in the December quarter this year. We commenced a review of our approach to currency management and established new contingency reserve sites. We took steps to further improve infrastructure, and reduced enterprise risk, including continuing our investment in systems and security to strengthen our operating environment.

On the human resource side, we introduced an annual survey to examine staff engagement levels. We established a mentoring programme for early-in-career staff, and invested heavily in manager and leadership development.

The final point is that we delivered 107 speeches and presentations throughout New Zealand and overseas. These included 13 on-the-record speeches. And we delivered briefings to political caucuses and gave several briefings to the news media.

Robertson Thank you, Mr Wheeler, and in terms of the performance, the bank deserves to be congratulated. We, obviously, are aware that in terms of audit and so on that you continue to have very high standards in that regard. I do want to refer you to one of your speeches that you mentioned at the end there. Speaking more specifically about the supply side of the housing issue, you said: “Much more needs to be done.” What needs to be done, and by whom?

Wheeler If you take the situation in Auckland, for example, we think the backlog of housing in Auckland is roughly 15,000 to 20,000 houses, and the Auckland Regional Council has indicated that they need something like 10,000 houses a year for the next 30 years. If you look at permits at this point, they’re running at an annual rate of around 7,500, which is a huge improvement on where they were 2 years ago—but still well short of the 10,000, let alone eating into it.

I think some very good work has been done on opening up new areas. But a major challenge there is getting the houses built quickly enough, and a lot of those areas are in the periphery of Auckland where people may decide that the transport costs—or it’s less attractive for them, or the infrastructure needs might be considerable.

I think work needs to be done in inner Auckland in addressing the height restrictions and the “not in my backyard” syndrome that’s there. I think the Government has done a good thing in asking the Productivity Commission to look at the sorts of issues that might relate to zoning decisions,
Robertson: Just to follow up on that, I understand that you do see it as a supply-side problem, and we can’t ask you as many questions about the demand side today as we might like; we’ll do that in a week or so. But, from that answer, I would take that, to simplify it, we need to build more houses. Clearly there’s a combination of actors involved in that. What do you see as the role of central government specifically in creating more supply?

Wheeler: I’m not so sure on that, and I’m probably not the right person to ask, but from what I can tell, looking at the issues around Housing New Zealand and social housing, it may well make a lot of sense to release some of those houses to the market. It may make a lot of sense to look at who the tenants are and what their income status is so that people on low incomes are the beneficiaries of that sort of State investment.

Robertson: That’s not building more houses, though, is it?

Wheeler: I don’t have a view on that at this point.

Robertson: Right. I just want to go back to the numbers you used, because we’ve had some differing views on this in the committee in recent weeks. You pick the backlog out at 15,000 to 20,000. The Minister of Finance had a lower figure that he was putting in. What’s your source for that and how confident are you in that figure?

Wheeler: I’m thinking back to some analysis. I can get back to you with the details if it’s helpful. But it was analysis based on the change in population between census, and looking at the occupancy per house and how many houses had been built. Using those sorts of variables, we came out with the 15,000 to 20,000.

Robertson: We can take that back up, but it would be useful to get a bit more on that.

Bennett: Yeah, so we’ll get that, OK, if you want to present that.

Genter: I just want to clarify first of all, when you say houses, you mean dwellings, right? Not just stand-alone houses—this includes multi-unit dwellings. I guess last time when you came here, last year, there was some note in a previous speech that we weren’t seeing the same sort of inflation in rent prices in Auckland as we were in house prices. Has that started to change? Is that an indication that maybe it’s not entirely a supply-side problem?

Wheeler: Rent prices have been picking up, not as much as they did in Christchurch, for example. It’s been a little bit of a puzzle to us in a sense that if there was an acute housing crisis, you might have expected to see rents increase more rapidly. But when you look at the analysis in terms of suburb-by-suburb, which we’ve taken a look at, you do see some very substantial increases in rent in some suburbs. Let me see if Geoff wanted to add anything.

Bascand: Just to add two thoughts. One is that the average rent doesn’t move much because the stock’s not changing very much. So you’ve got to look at it in a sense of new rentals, as renters turn over. They are moving a bit more
rapidly than the average, so there is some acceleration. And, yeah, rents
express the imbalance between supply and demand. So if you’ve got
population growth—that’s what you need for both the supply—then you
should expect to see that in the rent. So we are seeing some movement, but,
basically, supply’s not rising fast enough to keep up with the demand from
the population growth that Graeme’s referenced.

Genter You were reported earlier this month as saying: “There’s a risk of a big
correction in house prices in Auckland.” If there is a substantial increase of
supply of houses, particularly on the fringe where transport costs are higher
and land values are lower, and there’s less demand for living there, is that
actually exacerbating the risk of a correction in house prices?

Wheeler No, I think everything that can be done to increase housing supply reduces
that risk.

Genter Was there not a big correction and a big drop in house values, which
impacted the US economy because there was an oversupply of houses?

Wheeler Yeah, I think we’re talking about a long way in terms of a backlog to be
filled, to the extent that if you can reduce the supply-demand imbalance
through increased supply, then that’s a good thing.

Ross Good afternoon. Last year when you were here I recall when you were
talking about loan-to-value ratios. The Reserve Bank was of the view that
implementing loan-to-value ratios meant that interest rates did not have to
go up as fast as they otherwise would, and you calculated that it was about a
1 percent impact, in your view, that the loan-to-value ratios had. So interest
rates might have had to have gone up by an extra 1 percent if loan-to-value
ratios were not in place. Is that still your view?

Wheeler Well, I think if you ask what impact has loan-to-value ratios had, we
probably wouldn’t say it’s 100 basis points. I think the analysis we did at the
time was that we felt it was somewhere between 25 and 50 basis points. But
in terms of the impact, we think that it has reduced house-price inflation.
We felt at the time, when we did the modelling, that it would be of the
order to perhaps 2.5 to 3 percent, in terms of reducing house-price
inflation. It may well be that it’s reduced it slightly more than that. I mean,
you’ve seen the volume of house sales come back by around 12 percent or
so for much of the period compared to, say, September 2013, before we
introduced these measures.

Ross When you say there’s a 15,000 to 20,000 backlog of housing in Auckland,
do you also think it’s important that the type of housing that’s being built is
taken into consideration?

Wheeler I’m getting beyond my expertise. I don’t have the skills to comment on that.

Ross The reason why I ask is because if you follow the argument that loan-to-
value ratios disproportionately impact on first-home buyers—and first-
home buyers do not have the same access to capital as other home buyers
because of loan-to-value ratios—therefore, the demand for houses from
first-home buyers is reduced. That will have an impact on the type of
housing that is going to be developed in Auckland. Therefore, do you have
any concerns that loan-to-value ratios and the way that they are 
implemented right now is having a potentially detrimental impact on the 
type of housing that’s being developed in Auckland?

Wheeler On the type of housing, not that I can immediately think of. Let me see if 
my colleagues have thoughts.

Bascand Well, I think the question is—if I understand it—whether the lower-income 
part of the market is reducing its building. I think we’d point out that there 
is a construction exemption in the LVRs, so that was made to support the 
supply side as opposed to just trying to add demand to a limited stock. 
We’ve also indicated before that while there’s been some small shift in the 
share of mortgages away from the first-home buyer market, the shift is not 
enormous in that proportion, so I don’t think it’s a dominant impact on the 
supply side or in the type of housing.

Ross How effective do you believe that construction exemption has been?

Bascand I don’t have any numbers—

Hodgetts Well, in the banks are certainly using the exemptions, so they are taking 
advantage of it. But remember that construction lending is not a large share 
of mortgage lending anyway.

Bayly We seem to be living in a sound economic cycle at the moment, where 
we’ve got reasonably strong GDP growth at 3.2 percent, and we’re 
forecasting for 3 percent for the next 3 years, and, yet, we’ve got inflation at 
0.8 of a percent. So that environment is great, although it’s not great in 
terms of growing the tax revenue base—but, overall, from an economic 
perspective, good environment to be. Do you see this as part of a long-term 
trend going forward? If so, that’s obviously a good place to be. But I was 
just keen to see what your projections were going forward.

Wheeler Chairman, could I pick that up on 12 March?

Bennett Yep, OK.

Cosgrove I just wanted some clarification. You expressed some positivity around the 
7,500 consents in Auckland. Just for the record, you would acknowledge, 
though, that that may not be an accurate indicator of house builds. When 
one gets a consent, it’s a consent to build; whether that actually happens I 
think there’s been quite a bit of political debate over. The Government 
keeps talking about the wonderful consent volumes, as opposed to physical 
house builds when you can move in. Is that taken into account in your 
analysis?

Wheeler No. They were consent figures that I was talking about. As I say, at 7,500 
it’s still significantly short of what’s needed.

Cosgrove But I suppose I’m asking—it would indicate a problem was substantially 
worst if there is, which there normally is, a time lag between consent and 
build and move in. Right? So what I’m saying is, when you’re analysing the 
raw impact, do you take that into account?
Wheeler  Yeah, I didn’t bring the actual completions data with me, which is what I’d need to answer your question.

Cosgrove  Can you provide that completion data to us?

Wheeler  Sure.

Cosgrove  Thank you.

Seymour  I just had a question about the LVR. I think Jami’s question got to—it can start to become quite complex when you’re potentially distorting the housing market and the composition of new housing and so on. Would you characterise the LVR policy as designed to try to influence the housing market and the level of prices in the housing market, or to maintain prudent levels of debt and risk on the balance sheet of banks, or is it both? And has there been any mission creep over the last year or so?

Wheeler  I don’t think there’s any mission creep on the part of the Reserve Bank. We’ve got responsibilities in respect of financial stability, and the issues that were concerning us, if you go back to before that time—there was a situation where New Zealand’s house prices since, say, 2003 to 2007 had been the most rapid amongst all the countries in the OECD. If you look at Auckland house prices today, the median house price is, say, 50 percent above where it was in 2007. So there was the issue of—if you look at ratios such as house prices to disposable income, and you look at those comparisons internationally, we’re high. If you look at those ratios in respect to historical trends in New Zealand, then we’re significantly out of line with the historic trend, and that’s analysis that the OECD and IMF have done. And then the debt ratios—in 1990 household debt, as a share of household income, was 60 percent. Now it’s 145 percent.

So you put all those factors together and you start to worry about the potential damage that could happen to the financial system and to the broader economy if you were to see a significant adjustment in house prices. What was concerning us was that the banks were competing very aggressively to lend to people with low deposits. So putting all those things together, and the fact that the supply imbalance looked as if it could take quite a long time to address, that’s why we felt we had to move. So it’s a combination of reasons.

Seymour  So the bank does regard it as its role to manage ratios like house-price income in the wider economy?

Wheeler  Well, we have a mandate in respect of financial stability. A major asset like housing, which is the biggest asset on banks’ balance sheets and also on individual balance sheets, is one factor that we need to think carefully about when considering risk to financial stability.

Genter  Does the bank have robust data on the impact of overseas buyers and foreign capital coming in on house price inflation in Auckland? Given that we’ve seen in comparable cities overseas where they’re collecting more data—like Sydney, City of London, Vancouver—foreign capital is having a big impact on house price inflation there. Do we have the data, and is there any reason to think that it’s a problem in Auckland?
Wheeler I’m not sure what data LINZ is collecting at this point in terms of overseas buyers. The data that we’ve seen—and the issue is how solid is that data—is some data that was produced by the BNZ and REINZ, in terms of foreign ownership. In essence, I’ll just quote from it, they found—now this survey’s not continued, and why it’s not continued I’m not sure. So there may be real issues around the quality of the data. But, in essence, they found that 6.5 percent of the buyers in the Auckland market were offshore. So they were living offshore, but that included New Zealanders living offshore as well. Of that 6.5 percent, a quarter were Chinese, a fifth were Australian, and more than a fifth were European and UK. Now, I don’t know much about the quality of that data, to be frank, and the survey’s not continued, but that’s the latest data that I’ve seen.

Genter Would it be helpful for the Government to collect this data, and do you see any risk going forward to increase house price inflation, given what’s happening in comparable overseas cities?

Bennett Julie Anne, we’re running out of time, so Chris Bishop had a question.

Bishop I just wanted to quickly ask about household savings, because there was some data out, I think last week, from Stats that suggested that household savings has been positive for 5 years. People used to talk in New Zealand about: “We have a problem with savings.”, and one of the nice effects of the global financial crisis, I think, was that it focused the Government, but also households, on being a bit more prudent with—you might not be able to comment on this because of next week, but do you have any projections for whether or not that positive trend will continue, and how that might impact on the economy?

Wheeler Let me cover that in 2 weeks’ time, if I could.

Scott If a foreigner buys my shares that I own in Meridian or Warehouse or whatever, and I go up to Auckland and buy a house, will I be on that register that’s being talked about over here?

Wheeler That I don’t know.

Bennett I think members have—wanting to make their points. Thank you very much, Governor. See you soon, OK? Thank you very much for coming in, and your team as well. Cool. So if you could get us that information, those things, that’s great.

**Conclusion of Evidence**

2013/14 ANNUAL REVIEW OF THE RESERVE BANK OF NEW ZEALAND
# 2013/14 Annual review of the Social Workers Registration Board

Report of the Social Services Committee

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Recommendation

The Social Services Committee has conducted the annual review of the 2013/14 performance and current operations of the Social Workers Registration Board, and recommends that the House take note of its report.

Introduction

The Social Workers Registration Board is a Crown agent established by the Social Workers Registration Act 2003 to ensure that social workers are competent and accountable for the way they practice. The main functions of the board are to facilitate and promote the registration of social workers, set the standards for social work education, enhance professionalism in social work, and consider complaints.

The board is appointed by the Minister for Social Development. The Chairperson of the board is Shayne Walker.

2013/14 performance

In 2013/14 the board’s total income was $1.451 million (2012/13: $1.271 million) and its total expenditure was $1.424 million (2012/13: $1.3 million), resulting in a surplus of $27,000. The Office of the Auditor-General assessed the board’s management control environment and its financial information systems and controls as “very good”.

We note that, as in 2012/13, the board’s service performance information and associated systems and controls were again assessed as needing improvement. The Office of the Auditor-General has recommended that the board improve its performances measures, and consider whether there may be more appropriate measures for assessing its performance against its stated high-level outcome. It has also recommended that the board review its output measures to ensure it is employing the best indicators of the quality of its service.

We expect to see improvement in this area and to be updated at the next annual review.

Annual Practising Certificates

The Social Workers Registration Act 2003 requires all registered social workers to hold current Annual Practising Certificates to allow them to work as social workers. We understand that in 2013/14, 410 Annual Practising Certificates were renewed after the year had commenced. While we appreciate that some of these renewals may relate to social workers who were not practising until they renewed their certificates, we are concerned that some may indeed have been practising without a current certificate, in contravention of the Act.

We asked the board how it is responding to this issue. We were told that 68 of the social workers in question have been referred to the Social Workers Complaints and Disciplinary Tribunal. The board also said that this is likely to remain an issue while registration of social workers remains voluntary, which gives people the impression that renewing their certification is wholly optional.
Registration

Voluntary registration for social workers was introduced in 2003 to improve the consistency and quality of social work by ensuring that practitioners are adequately educated, supervised, competent, and accountable for their actions. The assessment for registration includes recognition of qualifications, and competence and practice requirements.

We heard that, in the 2013 New Zealand Census of Population and Dwellings, 18,327 people identified themselves as social workers. The total number of registered social workers in 2013/14 was 4,621, compared with 4,029 in 2012/13, and 3,522 in 2011/2012. Responding to the remarkable discrepancy between numbers of self-identified social workers and registered social workers, the board told us it had conducted a survey that suggested over 80 percent of the public thought that all social workers were registered.

The board said that although the number of registered social workers continues to grow, and there is a growing expectation in the field that social workers will be registered, it continues to push for mandatory registration. The board, which is predominantly funded by registration fees, noted that voluntary registration is costly, as it is required to provide a regulatory framework for an entire profession, yet not all who practise in that field are required to contribute to its funding. We note also concern that voluntary registration poses a risk to clients, as anyone can use the title “social worker”; unregistered social workers may not pursue registration for reasons that should be cause for concern. As it stands, the board can only accept and respond to complaints regarding registered social workers; when it receives complaints about others it must advise complainants that it cannot do anything.

The board explained that mandatory registration would allow it to establish measurable impacts and outputs to serve the needs of the public, the profession, employers of social workers, and the Government. It would also ensure that all social workers had access to supervision and professional development that was measurable and of value.

Some of us are surprised that mandatory registration has not been introduced, given the issues associated with voluntary registration and the fact that the board has been campaigning for mandatory registration for about nine years. The board emphasised that it is seeking mandatory registration only of people trained and educated as, and working as, social workers in a strict sense. It draws a distinction between this group and those who, while working in the social service sector, provide social care services as distinct from social work services. It believes that there are in fact between 6,000 and 8,000 people who work as, and are educated as, social workers, almost 5,000 of whom are already registered.

While we continue to believe that mandatory registration is not a panacea, we agree that it may have merit. We understand that the board is reviewing the Social Workers Registration Act 2003 and will provide a report, proposing changes to the Act, to the Minister for Social Development later in the year. We look forward to an update on this at the next annual review.

Supporting vulnerable children

The Vulnerable Children Act 2014 does not stipulate that those working with vulnerable children must be registered as social workers. We asked the board’s chairperson for his thoughts on this; he thought it unlikely that any of the social workers involved would be unregistered, but could not be sure. He did, however, agree that it would make sense for
the Act to make registration mandatory for social workers providing services to vulnerable children.
Appendix

Committee procedure
We met on 18 March and 1 April 2015 to consider the annual review of the Social Workers Registration Board. We heard evidence from the Social Workers Registration Board and received advice from the Office of the Auditor-General.

Committee members
Alfred Ngaro (Chairperson)
Darroch Ball
Matt Doocey
Jan Logie
Todd Muller
Jono Naylor
Dr Parmjeet Parmar
Stuart Smith
Louisa Wall
Poto Williams

Evidence and advice received
Social Workers Registration Board, Responses to written questions, received 12 March 2015.

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Solid Energy New Zealand Limited

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2013/14 performance and current operations of Solid Energy New Zealand Limited, and recommends that the House take note of its report.

Introduction

Solid Energy New Zealand Limited is a State enterprise and New Zealand’s largest coal company. It mines and supplies coal for export (mainly to steel mills in Asia) and for domestic markets. Within New Zealand it supplies coal to the Huntly power station and the Glenbrook steel mill, and to the dairy, cement, timber, and meat processing industries. It operates mines in the Waikato, on the West Coast, and in Southland. The Huntly East and Spring Creek mines are underground, the rest are opencast. The chief executive, Dan Clifford, took up his role in May 2014; the acting chairperson (since February 2015) is Andy Coupe.

Financial performance

In the year under review, the Solid Energy group (the parent company and its controlled subsidiaries) generated revenues of $449.2 million (compared with $631.1 million the previous year) and delivered a post-tax loss of $181.9 million (compared with $335.4 million). Impairments of $110.6 million (compared with $215.3 million) made up a significant component of the post-tax loss. The group’s total assets were valued at $636.1 million (compared with $859.2 million) and there were liabilities of $623.6 million (compared with $767.6 million in the 2013 financial year).

When Solid Energy appeared before us, three months into 2015, we were concerned to learn that the company had still not prepared and signed off its half-yearly report for the six months ended December 2014; we asked why, and when it would be done. We were told that the company was not prepared to issue the statements until it was comfortable that they represented a true and fair view; and that it needed to do more work to test some accounting assumptions—the valuation of assets and the assumption that the company was a going concern. Solid Energy could not estimate when the report would be produced, beyond expressing the hope (and intention) that it would be sooner rather than later. This is not satisfactory, and we encourage Solid Energy to prioritise addressing this deficiency as soon as it is able.

Solid Energy told us that if the current decline continues, the company would be in difficult straits. The situation is plainly evident, and the company is making plans to deal with it as best it can. Most of our examination of Solid Energy’s performance focused on these plans and their probable impact.

1 Within two months after the end of the first half of each financial year of a State enterprise, the board of a State enterprise is required to deliver to the shareholding Minister a report of its operations during that half year.

2 The going concern concept assumes that the business will continue to operate and run its activities for at least the next year.
The international market for coal

We were given some international context for Solid Energy’s operations. It was a sobering picture.

A significant downturn in the prices the company received for its coal continued during the year under review. The international coal price fell dramatically in July 2012 and has not recovered. With prices expected to remain low in the medium to long term, Solid Energy’s trading position has declined.

We were told that the spot price for coking coal at the time of our hearing was US$103 per tonne, compared with an average in 2013 of US$160. When Solid Energy appeared before a select committee a year ago, the comparable price was 14 percent higher, at US$119 per tonne. Using the spot price as a guide, Solid Energy forecasts that its business will remain marginally cash positive, on an EBITDA basis, to the end of the financial year on 30 June 2015. There will, however, be another significant loss after non-cash costs and interest are taken into account. We were told that the extent of the loss will depend on operational and financial initiatives that are still to be completed.

Solid Energy considers that a price of around US$120–130 a tonne would be needed to keep its business sustainable; it considers this unlikely to happen by the end of the 2015/16 financial year, and the company is therefore basing its planning on the assumption of a price around US$110 per tonne. While an eventual recovery is likely, its extent and timing are open to speculation; the company thinks it is some years away.

Options for addressing the difficulties

In the light of this very serious situation, we asked Solid Energy what it had done to manage the effects of the decline, and what further actions it contemplates. We were told that steps have already been taken to ensure the company remains in a viable trading position; and while it cannot control the market, priority is being given to addressing the areas over which it does have some control. We asked for details of this work.

Arrangements with lenders and the Crown

Towards the end of 2013 Solid Energy entered into a three-year arrangement which involved its bank lenders exchanging $75 million of debt for redeemable preference shares. We were told that Solid Energy feels it is increasingly unlikely that it will be able to refinance its current arrangements when they fall due in September 2016. While the business has no immediate cash flow problems, it has only marginally positive equity. We were concerned to hear that, although there are plans to deal with the equity position and improve operating cash flows, Solid Energy’s board considers them unlikely to resolve the refinancing issues that will arise in 2016 and beyond.

Solid Energy’s discussions with its bank lenders are incomplete, and are highly commercially sensitive and confidential, so we refrained from seeking detail at this stage.

At the same time as Solid Energy was making new arrangements with bank lenders in 2013, the Crown contributed $25 million of additional preference shares and a pledge of some working capital facilities (currently unused) to the value of $130 million. In June 2014, it made a non-cash equity contribution by extending an indemnity for rehabilitation costs, effectively adding around $103 million to the equity side of the balance sheet. Solid Energy

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3 Earnings before interest, taxes, depreciation and amortisation.
told us that it understands that the aim of the Crown support was to allow the business to determine whether it could return to sustainable profitability; we were assured that it does not expect anything further.

We asked whether, should the company’s situation deteriorate further, it had established a hierarchy of creditors. We were told that there are no secured creditors and, if such a situation should arise, standard statutory priority would be followed.

**Sale of assets**

Over the past two years the company has sold assets in the biodiesel business, concluded a partial sale of its underground coal gasification business, and sold the Mataura briquette plant. It is also in the process of selling its wood pellet business. According to its 2013/14 annual report, asset sales, including the sale of non-core land, realised $39 million. 4

We asked Solid Energy what other scoping work it had conducted on asset sales, and which assets would be the most palatable to sell. Solid Energy confirmed that such sales had to be considered; and, if it proved necessary, the North Island domestic assets would be the most saleable, followed by the South Island domestic assets. The export business would be the most difficult to sell. Solid Energy has had indications of the value of these assets, but has not yet appointed a sales agent.

We noted reports of an Indian consortium looking at assets on the West Coast, but Solid Energy said nothing had been heard of any such consortium in the last year, and Indian clients have not indicated any interest in acquiring Solid Energy or its export business.

**Operating efficiencies**

Solid Energy has been seeking operating efficiencies; and we were told that these continuing efforts can be summarised as restructuring how the company mines, how much it mines, and how it goes about its business. Operational and head office costs have been reduced by around 30 percent in the past 18 months; any gains, however, have been negated by the continuing decline of the international coking coal price.

A series of initiatives to improve operating efficiency started in 2012, and we heard of more recent substantial reductions in operations at the Huntly East mine, Stockton, and the company’s head office. In the South Island, Solid Energy has taken owner/operator responsibilities for some of its smaller mines and forced savings to improve an already profitable operation. The mine at Stockton, however, is a loss maker. The company has effected substantial improvements in productivity and costs, and work is continuing.

The company told us that it has been very clear with its employees that, without a recovery or a strengthening in export conditions, it would need to look again at how the business operates. This could involve reducing activity (and thus staffing); if so, this could happen within months or even days. The company assured us that it was doing its best to communicate the situation to its employees, so that there would be no surprises if action becomes necessary.

We understand that Solid Energy has reduced its staff at mine sites by 56 percent since peak employment numbers in 2012, and staff numbers at its head office by 74 percent over the same period.

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We asked whether diversification was an option being considered, but heard that Solid Energy’s core business is coal mining and it does not intend moving into other areas.

**Workplace safety**

We were pleased to note that Solid Energy’s safety performance continues to improve. The combined all-injuries frequency rate—injuries per million hours worked requiring medical treatment—was down to 9.7 in June 2014, compared with 12.9 in 2013. We note that this was achieved at a time when the company and its staff have been under significant stress, and we commend Solid Energy for maintaining improvement in safety through a difficult year.

**Rehabilitation of the environment**

The present value of Solid Energy’s rehabilitation liability for the whole business is just over $100 million. The company has an indemnity from the Crown that reimburses the costs of rehabilitation on a monthly basis. We were pleased to note that the rate of environmental disturbance by the company is less than its rate of rehabilitation.

**Labour Party minority view**

The Labour Party members of the committee are concerned at the lack of progress shown by Solid Energy in stabilising its financial position. We note with concern the recent resignation of the company’s chief financial officer and a senior financial accountant, and latterly the chairperson, Pip Dunphy, who served in the role for less than 12 months. With respect to Ms Dunphy’s departure, we were advised following the hearing of evidence that Ms Dunphy “felt that she and the Crown had different views on the resolvability of the issues [regarding Solid Energy] and that in those circumstances she felt it was in the best interests of the company that she resign”. To date the committee has not received any further information as to the specific reasons and rationale for Ms Dunphy’s departure.

Labour Party members of the committee also note with concern that to date the Government has not initiated any form of inquiry into Solid Energy’s performance or causes relating to its current commercial status.

The Labour members find this very concerning in the light of the 800-plus jobs lost to date, with more signalled, and the ongoing losses of taxpayer funds to the tune of $400 million and counting.

The Labour members are concerned that the Minister of Finance did not advise the chairman and/or the board that he would be making public comments regarding the Crown’s position on a future cash injection; this at the same time as the company was in restructuring negotiations with its banks.
Appendix A

Committee procedure
We met on 11 March and 1 April 2015 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
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Stuart Nash
Dr Russel Norman
Rt Hon Winston Peters
Grant Robertson
Jami-Lee Ross
David Seymour
Alastair Scott

Dr Russel Norman was replaced by Gareth Hughes for this item of business.

Evidence and advice received

Organisation briefing paper, prepared by committee staff, dated 9 March 2015.

Solid Energy New Zealand Limited, Responses to written questions, received on 23 February and 24 March 2015.
Appendix B

Transcript of hearing of evidence 11 March 2015

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Damien O’Connor
Hon Clayton Cosgrove
Gareth Hughes
Dr Russel Norman
Richard Prosser
Grant Robertson
Jamie-Lee Ross
Alastair Scott
David Seymour

Witnesses
Dan Clifford, Chief Executive, Solid Energy New Zealand Limited
Andy Coupe, Acting Chair, Solid Energy New Zealand Limited
Keiran Horne, Audit and Risk Committee Chair, Solid Energy New Zealand Limited

Bennett OK. Welcome, everybody, to this hearing from Solid Energy. So we’ve got here Andy, Keiran, and Dan. Is that right? So if you just want to introduce yourselves and then give a bit of an introduction, and then we’ll open up to questions from members, OK?

Coupe Thank you, Mr Chairman. My name is Andy Coupe. I’m acting chairman of Solid Energy at the moment. On my right is Kieran Horne, who is the director and chairs the Audit and Risk Committee. On my left is Dan Clifford, who is our chief executive. Members may recall that—

Cosgrove Can you indicate how long your presentation will be?

Coupe Three or four minutes. I was going to make the point that I am aware of—that you’re concerned about time, so it will be quite brief.

Cosgrove We’d like more of it.

Coupe I think it’s important that we actually frame the context of the world in which the company is operating, but it will be brief.

Bennett Thank you.

Coupe Twelve days ago we made a public statement to the effect that, while there was no immediate issue, we can see some real difficulty just over the horizon if our main market—export coking coal—continues to be in the doldrums.
Members may be aware that towards the end of 2013, Solid Energy entered a 3-year arrangement which saw our bank lenders swap $75 million of debt for redeemable preference shares, while the Crown contributed another $25 million of additional preference shares and a pledge to some working capital facilities—to date which they are unused. In June last year, at the end of the 2013-14 financial year, the Crown made a further commitment, extending an indemnity for rehabilitation costs, which had the effect of adding about $103 million to the equity side of the balance sheet. It was a non-cash equity contribution.

As our shareholding Ministers have said, the aim of the Crown support was to allow the business to determine if it could return to sustainable profitability. We’ve been fortunate to have had that support from the Crown, and we don’t expect any further support. As directors, therefore, our responsibility is to continually assess how the business is going, and that’s what we’re doing. While the company has made significant progress in reducing its operational and head office costs in the order of 30 percent over the last 18 months—and the weakening of the exchange rate has helped—but those gains have been negated by the continuing decline of the international coking coal price.

To frame the pricing issue we face, the current spot price for premium hard coking coal is US$103 a tonne, versus an average, in 2013, of US$160—the year the company entered into this arrangement with its lenders. When Solid Energy attended the Commerce Committee a year ago, the comparable price was US$119 per tonne—so, therefore, a further 14 percent decline in that 12-month period.

Generally, we discuss spot pricing when discussing pricing because it tends to be a precursor of the contract quarterly price. Briefly, on an EBITDA basis, the business is marginally cash positive, and we forecast that we’ll maintain that position through to the end of the financial year being 30 June 2015. However, after non-cash costs and interests, we are looking at another significant loss. But the extent of that loss will depend on operational and financial initiatives which are still to be completed. And because these discussions with banks are critical and both incomplete and we consider them highly commercially sensitive and confidential, we hope that members will agree that this is not a forum to delve into those discussions or those negotiations in any depth. It would not be helpful to the company were that to occur.

For the year to review, the loss was $182 million—as some of you no doubt are aware—following a $335 million loss in the previous year; both of those, of course, significantly affected by impairments to assets. The company has determined that for business planning purposes the market situation is unlikely to improve for quite some time, and that if it does, the turnaround will be slow and gradual.

Looking out, it means that as the balance sheet is structured now, it is increasingly unlikely that Solid Energy will be able to agree the refinancing of its current banking arrangements in September 2016, and other lenders
with maturities beyond that date. With this in mind, the board and management have begun discussions with the bank lenders, in principally, and with the Crown. The business has no immediate cash flow problems but it does have only marginal positive equity. As I’ve indicated, the board and management have proposed a plan to address the equity position and improve our operating cash flows but these measures are unlikely to adequately address the refinancing issues that face us in 2016 and beyond to which I’ve already referred.

The board is satisfied with the company’s continual improving safety performance. We appointed Mr Clifford as our chief executive in May of this year, and we are extremely satisfied with his performance on all measures. The board is satisfied that the company has and continues to make progress over those things that it can control—for example, safety, production, and customer service. However, there are things we can’t control. Because we can see an issue as a consequence of those things which are beyond our control, we have moved early. I’m almost concluding, Mr Cosgrove. I’m not prepared to speculate on the outcome of those initiatives to which I’ve referred. There are a number of potential outcomes. I repeat: the company has no expectation of further support from the Crown. We’re acting with urgency. We are keeping management and staff, our contractors, and our customers as fully briefed as we are able to and as commercial confidence would allow and dictate.

Again, conscious of the time, I believe it would be useful to ask—or to have—Mr Clifford give a very brief outline of the global market in which we operate so, again, the situation of Solid Energy can be placed in a global context. I think it will be helpful to members to understand that context—and given that there’s the media present, I think it would be also helpful if the media understood the environment in which we are operating so that there was a balanced—

Cosgrove

Point of order. I’m sorry to interrupt you. With respect, we have now 46 minutes. I think everybody’s appraised, with respect, to the difficulties you’ve been through and the global context. We have 46 minutes to review you, and that’s it for the year. And with respect, I think we should proceed.

Bayly

OK, with respect, I definitely want to hear about that international coking market, given what it will mean for your business.

Bennett

OK, do you want to just give us a brief introduction when you’ve finished—just keep it brief as you’ve done already OK?

Coupe

I’ve concluded.

Bennett

OK, so thank you very much for that Andy, and you mentioned in there that some questions you might not want to proceed with, so if you get to that stage where people ask those questions, feel free to say that for commercial reasons you can’t.

Coupe

Yes, and I understand that I can be required to answer questions. I’m just hoping that members will agree that it wouldn’t be in the company’s interest if those questions were persisted with.
Cosgrove   I think we all accept we can ask them and if you don’t feel it’s appropriate—
Bennett   —you don’t have to answer it, OK?
Coupe    Thank you.
Bennett   So, Dan, do you just want to give us a brief outline of the market, OK?
Clifford Thank you. Thank you, Andy. I don’t think there’s any doubt in the weakness of the international coal market. So, it’s quite dated, it is declining, and has been softening marginally for the last 3 or 4 months is conclusive. What’s important is how we deal with that, and the company responses internationally—so not just locally, internationally—have been quite ranging in response to those.

Those ranges from some companies actually increasing production to reduce their unit costs and become more competitive—a substantial improvement in cost performances internationally and across many of the supplying countries. Some companies are taking negative margin tonnes out of the market. So, in contrast to increasing of production, there’s been idling of assets, and selling and divestment of operating assets on a going concern or not basis. And those movements have generally been to prop up or strengthen balance sheets. All those levers that are being pulled are having complex impact on the international coal prices and, therefore, the predictability of those coal prices. We’re seeing India grow, China slowing, and Japan on a marginal but steady improvement.

Freight rates, inclusive, are at all-time lows. And on the cost-competitive front, we’re seeing foreign exchange rates in some of our supplier countries—i.e. Australia, to an extent New Zealand, and also Russia—having a positive impact on those supply countries’ cost competitiveness in production.

For Solid Energy though, there’s nothing more important for us than our cost-per-tonne through cost savings, efficiencies, and being able to maintain some market relevance. And to date, through 2014, and on a year-to-date basis and a full-year forecast this year, we’re showing good, healthy improvement in those things that we can control. And, historically, in reaction to, but more importantly now in anticipation of, continued weakened soft market, the value in our assets are dependent on the forward prices. We can control what we can, and we can react and second guess what that market’s going to do, but we certainly have value in our assets and the people that are running those assets.

Cosgrove   Can I ask you—you’ll be aware of Mr English’s statement yesterday saying there’ll be no more money. When he made that statement, had he prior to that advised you—as you are in, to quote you, “critical negotiations with the banks”—had he advised you that he would be making that public statement; or had he advised the board or management?
Coupe    Not specifically, but we are aware from our discussions with the Treasury that the Government would not be in a position to advance further [Inaudible] funds.
<table>
<thead>
<tr>
<th>Cosgrove</th>
<th>I accept that. But if I could be specific, did he advise you that he would be making that statement public?</th>
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<tr>
<td>Coupe</td>
<td>No.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>Thank you. Just a couple of technical questions, given the time. So you are solvent?</td>
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<tr>
<td>Coupe</td>
<td>Correct.</td>
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<tr>
<td>Cosgrove</td>
<td>If—given the dire situation, could you advise us, without getting into the mechanics of any deals, what is the hierarchy of payout to creditors? Who’s got first call? TSB? Tokyo-Mitsubishi?</td>
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<tr>
<td>Coupe</td>
<td>All of the people you mentioned are unsecured creditors. There are no secured creditors. The Crown facility is secure, but it’s undrawn—that’s the working capital facility. The order of preference is that of that follows under a—would apply under a, if you like, liquidation scenario. And probably my—Keiran, as a—having a practitioner in insolvency is best to answer that, but it’s a statutory priority. There are no preferred creditors.</td>
</tr>
<tr>
<td>Horne</td>
<td>Yes, it is just that standard statutory priority; we don’t have any secured creditors. So it’s staff, IRD for preferential.</td>
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<td>Cosgrove</td>
<td>Can you tell me: have you done any scoping; and if so, what? To possible sale of part or whole of assets in the worst scenario that it falls over.</td>
</tr>
<tr>
<td>Coupe</td>
<td>Scoping in terms of what the assets may be worth?</td>
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<tr>
<td>Cosgrove</td>
<td>Selling off assets. You know, flicking part or whole of assets within the company in the event of a—</td>
</tr>
<tr>
<td>Coupe</td>
<td>Yes.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>And can you tell us which assets would be the most palatable to sell, and which would not?</td>
</tr>
<tr>
<td>Coupe</td>
<td>The most palatable would be the North Island domestic, the North Island business, then the South Island domestic; and then the export business would be the most difficult.</td>
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<tr>
<td>Cosgrove</td>
<td>And how much scoping have you done? Have you been able to do a valuation, put numbers together? How deep has the scoping gone in terms of disposal?</td>
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<tr>
<td>Coupe</td>
<td>We have indicative indications of value, but we haven’t appointed a sales agent—we haven’t appointed anyone to do the analysis of what those asset values would be.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>Do you believe, or can you tell us, is that a realistic option, and how close are you, do you believe, to the company tipping over?</td>
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<tr>
<td>Coupe</td>
<td>Is divestment of assets a realistic option? Sitting as a director, I’d have to say of course it’s an option, yes.</td>
</tr>
<tr>
<td>Cosgrove</td>
<td>And how close—can you give us your professional opinion in terms of whether the company will survive the next 12 months?</td>
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It will need, in my view—and my statement last week, last Friday, where I was quoted—or the Friday before—was that: “We cannot see that the refinancing of our debt facilities is a realistic possibility absent a restructure of our liabilities.” So, by definition, I’m saying to you that I think the restructure of our liabilities is an important milestone.

A supplementary, just on that one. In terms of disposal of assets, I understand there’s been an Indian consortium looking at assets on the West Coast. Have they given you indicative offers of—or the value of anything they’re interested?

This arose last year. I’ve heard nothing of that since, in the interim.

So are you saying there has not been any interest from offshore Indian buyers in the assets?

That’s correct. No interest is expressed, no pricing’s been expressed—I’m not aware of that at all. I can tell you that Mr Clifford has been dealing with our Indian clients in terms of—we’re looking to renegotiate the prices at which we sell them coal, but those negotiations have not encompassed any intended acquisition or interest in acquiring Solid Energy or the export business.

Clearly been some difficult times in the past and ahead. Can you please outline the support that you’ve been receiving from the Government?

We were given $25 million—or the Government put $25 million of preference shares into the balance sheet. They provided three facilities: a working capital facility of $50 million, a further facility of $50 million, which was to fund the sale of surplus land, and as the surplus land was sold, the availability of that facility declined; and we had a separate $30 million working capital facility. So in total, $130 million of working capital facilities, $25 million of preference shares, and subsequently $103 million was added to the balance sheet by way of remediation or rehab—sorry, an indemnity in regards to our rehabilitation liabilities.

In light of that support and the falling coal prices, can you talk us through in more detail the actions you’ve been taking to ensure you remain in a viable trading position?

Absolutely. In fact, we’re very pleased to answer that question. At an operational level—and perhaps I’ll pass this over to Dan. And Dan, you can talk us through the initiatives that we’ve put in place.

The initiative started, really, late 2012 into 2013. More recently, we’ve had substantial reductions through our operations at Huntly East Mine, and more recently Stockton, and also our head office, in terms of overhead reduction. We’ve had a heavy focus on cost reductions through the business to protect margin, as I said earlier, in response and in anticipation of the weaker markets. So at the moment—this year for example—we’re forecasting to be, on a cash-operating basis, $30 million better than we planned in budget, and neutral or slightly negative on an EBITDA basis, in contrast to our budget in being negative. So, we’ve been focused heavily in
the margin and operating efficiencies to protect that position and use of the capital that's been supplied to us.

Ross The business units that Solid Energy has, can you outline for us the adjustments that have been made to ensure that they remain competitive, efficient, and appropriate for market demand?

Clifford Starting with domestic, we’re in a—particularly on the North Island, our North Island domestic units is profitable, and substantially profitable. We still, more recently, have work through operational contracts with Stevenson’s, who are successfully operating that site for us. That has improved our bottom line substantially and assisted in length of that operation—the lifetime of that operation. On the South Island, we have taken owner/operator responsibilities for some of our smaller mines, and continued to force cost savings through those operations to, again, improve what is already a profitable position there.

Stockton, in our export market, is the one that in current circumstances is negative. It’s a loss maker. We have worked through late last financial year and early this financial year to correct that position, showing substantial improvement in its productivities and its costs. We have done—in response to the industry expert opinion we’ve had on international pricing, we are doing, and finalising, a response to that for Stockton now. It hasn’t been completed, nor has it been announced, so I’d prefer at this stage that the first people who hear about that are our employees.

Hughes Thanks very much for your presentation. In regards to your previous question on liabilities and need for financing, would you say the banks control Solid Energy and decide whether you live or die?

Coupe I would respond to that by saying they are the dominant stakeholder in Solid Energy.

Hughes Do they decide if you have a viable future?

Coupe So long as we’re not in breach of any covenants, no. To the extent we’re in breach of covenants, then the answer to that could be ‘yes’. We’re currently not in breach.

Hughes Your strategy’s been based on a stable domestic market, yet you sold 673,000 tonnes less coal. To paraphrase the old saying, if you find yourself in a hole—or a coal shaft—isn’t it time to stop digging and plan for a transition?

Clifford I think the—in response to that, the direction that the company has taken recently to focus on its core business, which is coal mining, is still in progression, and we’re showing solid improvement in that picture.

Hughes Yes, but what we’ve seen is China, for the first time, actually reduce its coal demand last year. The IEA is saying we’re not going see you. We’re going to see long-term low coal prices. Coal’s your problem, isn’t it? Yet it’s your only solution.

Coupe We don’t mine milk, so the answer to that is: yes, that is our product.
Hughes Yet you were the biggest land owner in Southland and dairy farming.

Coupe Well, if you’d like to delve back into the investments made by a prior board in a prior time, then I suggest you read, with respect, the report by the OAG, which you probably have read, which delves into the decision making of the board and management at the time those investments were made. I’m not in a position to comment on them; I wasn’t there. I’ve joined this board to help. I’m looking forward; I’m not looking back.

Hughes My last question is: have you done any estimates of your environmental remediation liabilities and the total costs? For example, the Cypress or Stockton mines, you’ve got more than 3,000 snails, I understand—endemic endangered snails in a fridge. What’s the cost? And if you do go belly up, who pays? Do the banks get the first claim on your assets? Or what happens to those environmental liabilities?

Coupe We’ve already answered the question about first claim on the assets being those secured lenders, and Keiran’s answered the question about priority and payment. I’m going to let Dan answer that question, but I will say as an outset, Solid Energy stands by and is proud of its record in both health and safety, and in the environment and protection. Dan, do you want to talk about—?

Hughes Can I just clarify—you’ll need a taxpayer bailout if the coast wants to see its environment remediated?

Bennett Gareth, just let Dan—he was going to answer your question, OK?

Clifford The present value of our rehab liability across the entire business—so not just Stockton—is just over $100 million. It’s accounted for in our balance sheet. Currently, we do have an indemnity that is linked directly to Solid Energy that reimburses the costs of that rehabilitation on a monthly basis. We’re showing positive progress in our rehabilitation while we’re operating as we are. And just to outline that a little bit further, our rate of disturbance is being overrun by our rate of rehabilitation. So, in essence, we have a net positive rate of improving our situation from the last 10 to 15 years of mining operations.

Scott It seems that your North Island—and I’m talking about marginal costs—your North Island, you said, was contributing to the profit. Some of these smaller South Islands were contributing and positive, so your marginal costs are below $100, it seems to me, and your Stockton is significantly above $100. How low could that dollar price go? I mean, what is your marginal cost on those profitable businesses?

Coupe Just to be clear, they’re different products in the sense; there’s thermal coal as opposed to hard-coating coal.

Scott So what’s the—so they’re your profitable stuff. You talked about some of the coal businesses increasing production, because, obviously, their costs are lower; their cost structures are lower—marginal costs are lower. So what is your issue with your Stockton marginal cost compared to other mining operations?
Clifford The domestic businesses are capped by the domestic market. So producing more coal is not an option for us to do that because we haven’t got the market for it domestically. So the imperative for our domestic businesses is that of stable, long-term, cost-effective production to meet those domestic market requirements, and our work is going into ensuring that we are operating and investing in those domestic businesses to keep that cost down and remain competitive.

While I talk about it being domestic business, we’re under no illusions that even in New Zealand there is international pressures on our production. We are competing internationally, and the likes of New Zealand Steel, Fonterra do have options to look at import into New Zealand. So, for us, as I alluded to earlier in my opening statement, there’s nothing more important for us than our cost per tonne. So I think that summarises the South Island imperatives. Sorry, in the domestic.

On the export market, we have an option to increase or decrease production. The market price is dictated to us. We have relevance in there, but we’re not a market. We can’t influence the market. So, for us, there it again comes down to maximising positive margin and bringing our volumes down. And with that, and internationally, it’s quite difficult to reduce your cost per tonne while you’re actually bringing your volumes down because of fixed costs.

What we’re doing the work now to find out is, or secure is, can we bring those volumes down; take out negative margin tonnes but continue to reduce our cost per tonne to keep ourselves relevant in the international market. I might add there that that work has positioned Solid Energy midway in the international cost curve. So, 50 percent of the producers on a cash basis are more expensive than what we’re producing.

Cosgrove Could you tell me on what date did Miss Dunphy resign? She’d been in the job—correct me if I’m wrong—12 months or less?

Coupe That’s approximately right. The actual date, I don’t recall. She phoned me the evening that she told me that she’d tendered her resignation.

Cosgrove Do you have the date of that?

Coupe If I could go through my diary and check—I can’t tell you straight off.

Cosgrove Secondly, what reasons did she give for her resignation?

Coupe She didn’t; she didn’t. I didn’t ask and she didn’t give them.

Cosgrove Did she provide any in her written resignation?

Coupe I haven’t seen one. I understand that there was a letter, but I haven’t seen it.

Cosgrove There wasn’t?

Coupe I understand that she wrote a letter of resignation—or tendered her resignation. She simply told me that she’d offered her resignation, and that’s all I can say.
Cosgrove  Don’t you find that unusual? She’s a pretty eminent person. We have no axe
to grind. She was there cleaning up as you are. Don’t you find that
extraordinary that a person of her commercial acumen would just ring up
and say, “I’m going”?

Coupe  Look, I’ve known Pip quite a long time, so you’ll say it makes it doubly
surprising that we didn’t have that conversation. I can’t put myself in her
shoes and answer the question. What I can say is this: I’ve worked with her
for the last 18 months. The workloads she’s borne has been extreme. We’ve
had the restructure in 2013/14. Pike River was enormously time consuming
and very emotionally draining for her. We had the recap again at the end of
the last year. Over and above that, I think members are probably aware
she’s suffered a personal tragedy. I don’t know which of those or what
combination of those or, frankly, anything else led to that decision, and
simply, I can’t tell you.

Cosgrove  Just for the record, I make no criticism of you or your current chief
executive. I’m on record. My criticisms of previous people—

Coupe  I’m aware that I have to answer truthfully. We didn’t discuss her reasons.

Bennett  No, that’s fine. Thank you.

Cosgrove  Could I ask: do they directors have indemnity? And when did they gain that
general directors indemnity?

Coupe  There is no general directors indemnity. Just to be very clear here, the word
indemnity is being used in terms of the rehabilitation and the indemnity the
Crown’s given us. That is a separate issue. That’s, if you like, a balance sheet
item. There is an indemnity for a very specific set of circumstances. It’s
actually called “a specific indemnity” in its heading. It does not relate to
solvency. It does not offer the directors protection in the event of solvency.
It’s quite a complex issue, and it probably doesn’t—it’s not worthy—even if
you had the document, you wouldn’t deem it worthy of further inquiry.

Cosgrove  No problem. Your CFO has resigned, and one other senior official; or is it
just the CFO resigned in the last 2 weeks?

Coupe  The CFO, and a reasonably senior person in the accounting team.

Cosgrove  What was their title?

Clifford  Title did you say?

Cosgrove  Yes.

Clifford  Senior financial accountant.

Cosgrove  And why did they go?

Coupe  Well, I’ll let Dan answer that question.

Clifford  In relation to our CFO, Steve Surridge indicated that to me prior to
Christmas, that he had been approached and had seen another alternative
for employment. He had been with our business for 6½—nearly 7—years
in bearing capacity, and he decided that the other option was better for him,
and he took that.
Cosgrove Could I ask the acting chairman—and this may sound a strange question but I think it’s helpful to get it on the record. Have any of your co-directors, or yourself, expressed any concerns about signing off the half-year financials in respect of fraud?

Coupe Speaking for myself, the answer to that is no.

Cosgrove So they haven’t expressed a view that doing that would create some legal difficulties?

Coupe They haven’t expressed that view to me, and I’m highly confident that if they had that concern, I would know about it.

Cosgrove I accept that; I accept that. Can I make an observation followed by a the question? It seems you’re in dire straits.

Coupe Beg your pardon.

Cosgrove The company’s in dire straits; it’s in a difficult period. How deeply have you moved to a formal transition plan and formal transition options? So, falling over is one. You’re talking about cutting costs in various things, and on that, I’d like to know what that means. Does that mean, presumably, jobs; and if so, how many and where? Can you give us some detail?

Coupe In my opening statement, I alluded to operational and financial initiatives. In regard to financial initiatives, that’s the discussions that we’re having with our bank lenders principally, but also the Crown. As regards operational initiatives, that’s the moves that Dan alluded to. It does involve a restructuring of how we mine, how much we mine, and how we go about our business.

Cosgrove So could we—is it fair to say, for those folks who are left at Solid Energy—there’s been, what? 800-odd plus redundancies—is there a likelihood of further redundancies? Because that’s what they’ll want to know.

Coupe I think the answer is that that is potentially an outcome.

Cosgrove And over what—at what period do you think you’ll be able to come back to staff with some, you know, definitive decisions over their futures, because they have had it pretty rough, you’d accept?

Coupe No, I agree. Look, I’m happy to answer that, but I will—I will pass to Dan because Dan’s had that more face-to-face interaction with them. Do you want to answer that?

Clifford Yes, I will. We signalled, now—and I’ll cast our minds back to early this financial year when we made quite substantial adjustments at Stockton, and also in and around September we also made substantial adjustments in our overheads in the head office—and right through that period, and right up until the Christmas period, we’d been very clear and indicated there that should we not see a recovery or a strengthening in export conditions, that we would have to take a look at the business again. Now, we did that to ensure our employees—and most importantly our employees here—that there are no surprises. And I’ve been regularly communicating throughout
our business, as have our operational general managers, that that is the case to ensure that there isn’t any surprises.

I think, in the current market conditions and movements towards reducing our activity and, therefore, reducing the negative margin tonnes in the market, that reductions will be inevitable on the basis of those plans. The timing of that—as I mentioned earlier, at this stage we need to complete the work, and the indication I’ve given, particularly to the Stockton employees, is that that’s not a matter of days and nor is it a matter of double-digit months. It’s in that range for us to get the work done. In all circumstances, we’re very aware of the pressure that that puts on our employees. And I will say in more recent times that pressure is extending right across all Solid Energy employees, inclusive of our West Coast employees, particularly Stockton. And we’re doing our level best to communicate that and absolutely ensure there’s no surprises for people.

Bayly I just want to clarify some things that you’ve said before, because it just seems that it’s very easy to portray that business in a certain way. But from what you said before, Andy, you said that, at a net level, you’re cash-flow positive-ish—

Clifford More or less. Break even, call it.

Bayly Break even. Can I ask, in terms of new capital required—CAPEX requirements—are there any significant CAPEX you need going forward over the next, say, the next 12 months?

Clifford Not in the next 12 months. In our current budget this year, we have sustaining capital that we’re budgeted for and we are expending. That’s to keep our current operations operating and, probably more importantly in there, safe. We’ve invested in, certainly, in our infrastructure and how we handle that for safe operations under that budget. In this current year also, we have capital set aside for renewal of our North Island assets in the way of Maramarua and restarting mining there. In the next 12 months, we don’t have a large requirement on any expansionary capital, but I must say that it’s been like that now for a number of years, where our depreciation is outrunning our capital investment. And in the mining game, you have to renew because they’re depleting assets, and we will be under pressure at some point in the not too distant future to reinvest.

Bayly But if I’m a banker looking at the company, I can see, at an operating cash-flow level, you basically break even. You’ve got some flexibility around future CAPEX needs, and I heard you saying before that you’re currently meeting bank covenants. So—is that correct?

Coupe That’s correct.

Bayly So, in terms of the organisation—and also I see that you’ve reduced employees by a third, at December 2014, and you’ve covered those costs. So, you are in a steady state situation at the moment. Would that be fair, if I was a banker looking in? You would be sitting there saying you’re at a steady state.
No, I think that wouldn’t be the right way to look at it. I think there is a decline occurring which, if it continued, would see us in difficult straits. I’m referring to—

But there’s not an immediate issue. It’s an issue that we see coming.

It’s not an immediate issue, right? So the issue is, going forward, is really one around the—you’ve had this focus on cost per tonnes, which obviously you are myopically focused on. But the issue really is, longer term, whether the coking price stays at $102 or $103, or what the long-term prognosis for that.

Last year members asked the board what price for hard coking coal would be required to have a sustainable business, and I think Mr Luff answered the question by saying: a price at US$140 to $150 a tonne. Because of the initiatives that we’ve put in place—and by any measure, if you cared to look at Solid Energy, you’d find that we’ve cut our cloth according to our means as appropriately, I think, as we could—that number, now, is in the vicinity of US$120 to $130 a tonne for us to have a sustainable business. So that’s a measure of what we need, and it’s a measure of what we’ve come from. In terms of CAPEX, there’s two ways of looking at this: one is that we have agreed OPEX and CAPEX covenants with our banks, as part of the—what’s called the RFA, which is the Rescheduled Facilities Agreement. Beyond those, we have to get the approval of the banks to put in place initiatives which go beyond those levels; and the restructure—which I’ve alluded to and then Dan has alluded to as well—in Stockton, should it go ahead, will require the approval of our bank lenders, as well as the Crown, who is the third party to the RFA.

When would you—your expectation of getting that $120 sort of international price—have you got any forward expectations of when that could happen, or—?

I’ll let Dan answer that. What I will say is, we’re working—from a business planning point of view—we’re working on a price not being above US$110 through to the end of the FY16 year.

I think at the moment, due to some of those market influences I pointed out earlier, picking when and at what level prices will recover to is purely speculative at the moment. We’re basing our business planning on the facts as they stand at the moment, and that is, as Andy alluded to there, we’re doing forward plans on the basis of US$110 a tonne, and testing our facilities on that basis. There will be at some point a recovery. At what level, and when, is the question. And my personal feeling is that it’s a matter of years away—not immediately.

Could I ask you—you’ve been advised that the previous board—previous to the current one—and the previous management had, I think, two or three disputes with the Crown over evaluation and the coal price. Do you believe, looking back, that they were negligent in their forecasting? Because they believed what went up would never come down, effectively; even in the face of a wealth of independent evidence. And do you believe that that
may well have led to the situation, or contributed to the situation, we’re in today?

Coupe  That’s a similar question that you asked last year, Mr Cosgrove. I—

Cosgrove  Yeah, I didn’t get an answer last year, so I’m hoping I’ll crack it.

Coupe  Look, I can’t put myself in their shoes. You’ve got to put yourself—and assume you’re in their position, with the facts as they understood them at the time. As we look at it now—as we look at it now: then, clearly, the answer is, with the benefit of 20/20 hindsight, which is quite a common gift I might add, and one I’m not prone to rely on, you could say yes.

Cosgrove  But you can rely on independent advice though. That helps.

Coupe  Well, again, when I refer to the Auditor-General’s report and to the investments and to the washing plant at Stockton and the investments in the pellet plant, the Office of the Auditor-General drew some conclusions regarding that, and it seems to me that they were in a better position to draw those conclusions than I am.

Horne  As a new board, we haven’t spent a whole lot of time looking back. Our role is to look forward. We, by all means, look to learn lessons from the past but we’ve been pretty busy looking forward.

Prosser  I wonder, is further diversification an option for you? I know you said that you’d contracted your business around the core business of mining coal, but given that—and without wanting to put in jeopardy, perhaps, any commercial interests if you do have these initiatives that you talked about at an operational level—you’re good at digging holes and mining stuff out of the ground, is it an option for you to, perhaps, dig other stuff out of the ground, or do further things with it? Is the company in a position structurally and in terms of the people it has on board? I mean, what I’m getting at is that the things that are looming at you are largely beyond your control—and that’s the international price, the requirements of your bankers, the ability and willingness, relatively, of the Government to keep putting money into it. And the last thing we want to see is a tip up. So, in terms of the survival strategy, are you able—have you considered diversifying into other things? I know the Southland lignite-to-diesel thing never happened, or hasn’t happened, for whatever reasons. But, you know, could you move into adjacent businesses, as it were, as a way of keeping going?

Coupe  I think that would be a no.

O’Connor  Can I just ask a question—it’s basically: how could a company get it so wrong when it was a star performer, I guess? I’m looking at the level of redundancies that have affected my communities in particular, and I’ve seen hundreds and hundreds of redundancies in the West Coast and through the North Island. Yet very few are head office. And it’s a criticism that I think is fair, that the one consistent thing here has been people sitting on their butts in Christchurch making decisions—many of them bad decisions that have created hundreds of jobs to be lost, a company to go down the gurgler—and yet we continue to be reliant on people, I say far removed from the
realities of coal mining, in Christchurch. And I'm still not convinced that they're making the right decisions at this point. Can you convince me otherwise? You've had a charmed run. A mining company that has no responsibilities for infrastructure beyond that of their mine—most other mines around the world are responsible for the accommodation and social services of their miners. Solid Energy has never had to do that, yet you've got it so horribly wrong. Mr Clifford, you've been in the job now long enough to have made some—I guess to have reached—some conclusions about how a company like that can get it so wrong. And if we're to learn from the lessons of the past, what would you advise going forward?

Clifford There's quite a few questions in and amongst that. If—

O'Connor Just one or two, accurately, would be handy.

Clifford I think—well, the way I'd like to start to answer that is that I disagree with you about the fact that there's a lot of people sitting in Christchurch far removed from the business, not contributing to the business. I'd also like to point out that in the not too distant past, on a percentage basis, our overheads and our head office staff have been cut or reduced more substantially than have our operating staff on a proportionate basis.

O'Connor Twenty-eight lost from head office; hundreds of miners.

Clifford In the not too distant past, meaning more than just the last restructure we did 6 months ago—and I can check the data and I'll get back to you with the exact data—the head office has been reduced by some 64 percent, in comparison to our operations at 44 percent.

Cosgrove What's that in numbers then—of percentages?

Coupe Mr Cosgrove, the relevance of absolute numbers—it's not relevant because—

Cosgrove Well, this is the most [Inaudible FTR 11:55:03] hundreds of people on the case though, with respect.

Coupe Well, in that case you wouldn't have a chief executive; you'd have no one in the head office at all, if you wanted to match the numbers. It's not a sensible question.

O'Connor It's disconnected, perhaps, is the word I should have used.

Clifford Again, and with respect, I'll disagree with you on that. We have—

O'Connor The proof's in the pudding.

Clifford Well, we can talk about the proof being in the pudding, and we can look at our operational performance, and our performance in the levers that we can pull. And I'd go as far as saying that we're also anticipating what's coming rather than being a victim to it, and making those changes now.

Cosgrove It's been a radical shift from the past.

Clifford And if I can just expand on that—and perhaps it might be better asking our important personnel on site as well as to whether there has been more visibility and more connection with our operating sites. From my
perspective, we have had a reduction in head office. Our teams there are working hard and efficiently. We have remodelled our operating structure to put operational responsibility in the operations in strategic and consolidation roles in our head office, with those corresponding reductions. But I think your point is correct: the proof is in the pudding. And our results at the back end of 2014, our year to date, and our full year forecast should be evident of the way the company’s performing on an operational basis now.

Robertson Three months on, you haven’t signed off yet on the half-year accounts. When do you expect to do that?

Coupe That will depend on our negotiations with our lenders.

Robertson That’s the only factor that’s determining whether or not the board’s happy to sign off on those accounts?

Coupe As far as I’m concerned, yes. I’ll pass over to Keiran, who chairs the Audit and Risk Committee, to comment further.

Horne Yes, I mean, as we released last week, we’re not prepared to put those out until we’re confident that they represent a true and fair view. There is still some accounting assumptions that we need to more robustly test. And it is all wrapped in with our future viability of the company and our discussions with the banks.

Robertson Sorry, could you be more specific about the accounting assumptions?

Horne Well, the valuation of our assets and the going-concern assumptions—things like that.

Robertson So you can’t put a date on when you might produce the accounts?

Horne Not at this stage.

Robertson That’s interesting.

Coupe We’d like it to be sooner rather than later. Clearly, we’re looking to conclude and have a way forward as soon as possible. We’d like to have been there by now, but these things, unfortunately, take time.

Hughes I would like to acknowledge the hard times your staff must be going through at this point, particularly when comments such as “reductions are inevitable” are made. Can I ask: have you’ve had any discussions with the Government or started planning for large numbers of redundancies, given you’re planning to dispose of profitable assets in the event of liquidation? Have you started planning or had conversations?

Coupe No, I didn’t—Mr Hughes, I didn’t say we were planning to dispose of assets. I said that the disposal of assets was a potential outcome.

Hughes But you said you had done some work on it.

Coupe Yes, we’ve done work on lots of things—

Hughes Have you done any work on your staff and preparing them, or discussions with the Government to support them in the event of large-scale redundancies?
Coupe Mr Clifford, I thought, was reasonably forthright in his commentary on his interaction with staff and the fact that staff at the mine sites have been made as aware as we could possibly make them.

Hughes Can I just clarify the extent of support for staff—these discussions with them: have you had any discussions with the Government to support them in the event of large-scale redundancies?

Coupe No.

Scott I guess it’s a sort of rhetorical question—so we’ve seen dairy prices halve from $8 to $4; we’ve seen currencies volatile; prices—the Kiwi’s dropped a little bit; and we’ve seen coal prices go to levels that, again, are sort of totally unexpected. How much would you like to bet that we would be at a $102, at $4.30 in the milk price, and at US$0.75 this time next year? How much would you like to bet that we’ll be in the same position?

Coupe I will say one thing: the position we find ourselves in is—bear in mind the price just touched US$400 at a high. So, the position in which we’re trying to manage the business is if the farmer is receiving $2. And, therefore, people need to consider that when they think that what we’re trying to deal with here.

Cosgrove Has the Government, or Ministers collectively, expressed a preference for where they want Solid Energy to be? Have they expressed a preference—given you any indication of what they expect from you in terms of strategy?

Coupe No, my understanding from Government is that their strong preference is to let the company continue, and that people continue to be employed.

Cosgrove How do you know that if they haven’t expressed it to you? Because you just said you said no; so how do you know that?

Coupe No, I don’t—well, maybe perhaps I misunderstood the question, but I don’t think I had said that. My understanding is, from many discussions I’ve had over a range of things—naturally people get an understanding of what people’s wishes are, and clearly for the company to be ongoing and for employees not to lose jobs is clearly the preferred outcome. It’s the preferred outcome for all of us, obviously.

Cosgrove Even though the Minister’s said he won’t provide any more funds?

Bennett Thank you, Andy, and Keiran, and Dan. We really appreciate your time and very trying circumstances. Take care, OK?

**conclusion of evidence**
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Southern District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2013/14 performance and current operations of the Southern District Health Board, and recommends that the House take note of its report.

Introduction

The Southern District Health Board was formed in 2010 by merging the Otago and Southland District Health Boards. It covers the largest geographical area of all twenty district health boards (DHBs) and is the sixth largest DHB by population, serving 308,600 people. Approximately 60 percent of the population serviced by the DHB live in Dunedin or Invercargill, with the other 40 percent living in rural areas. The population of the Southern region, which is forecast to increase by only three percent to 2031, is slightly older than the national average. The DHB is funded by the Ministry of Health to plan, purchase, and provide health services, including public hospitals and most public health services within its area.

Financial and service performance

In 2013/14 the Southern DHB had a total income of $873.897 million and total expenditure of $891.719 million, resulting in a deficit of $17.822 million. The budgeted deficit for the year was $9.039 million.\(^1\) It is the third year that the DHB has reported deficits.

The Office of the Auditor-General rated the DHB’s management control environment and financial information systems and controls as “needs improvement”. It rated the DHB’s service performance information and associated systems and controls as “good”. The DHB relies on a letter of comfort, providing the assurance of support from the Ministers of Health and Finance, to maintain financial viability.

We noted that the DHB’s deficit increased substantially in the final quarter of 2013/14. The DHB told us that this was largely due to unfavourable variances in inter-district outflows and community pharmaceuticals expenditure. It was unaware of all of the variances until after the financial year had ended.

We remain concerned about the Southern DHB’s continuing deficits and intend to monitor its financial situation.

Strategic Health Services Plan

The Southern DHB is developing a strategic plan, which will be the first since its formation in 2010. This will define the DHB’s priorities and direction for the region’s service provision and infrastructure over the next decade. The plan will aim to address ongoing issues faced by the DHB including the region’s static, ageing population, which places increasing demands on its services but does not result in a corresponding increase in the

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\(^1\) Southern District Health Board annual report 2013/14, p. 51.
DHB’s funding. There will also be strategic planning for rural hospitals and facilities to ensure that they appropriately meet the needs of their specific communities. We heard that the DHB has undertaken public consultation on the plan, and has received good feedback.

In 2014 the DHB completed the Southern Health Profile which has provided detailed information about the region’s population and health outcomes. The profile forms the basis of the DHB’s strategic approach.

**Dunedin Hospital**

The Southern DHB told us that it is aware of difficulties relating to its ageing facilities. It has been suggested that the state of Dunedin Hospital may have contributed to the DHB no longer training intensive care unit specialists.2

A report on the hospital’s clinical services building was commissioned by the DHB last year. The report reinforced the view of the DHB that capital expenditure on the building should be restricted to urgent requirements. It is working with the Ministry of Health and the Ministry’s Capital Investment Committee to develop a full business case for the eventual replacement of the clinical services building. The Strategic Health Services Plan will inform the business case being developed, and clinical services planning will take place before any major building work is initiated.

Some upgrades and improvements to the hospital have taken place, including the opening of new paediatric and neonatal facilities in 2014. The DHB is particularly pleased with the neonatal unit which was built on time and on budget after significant input from clinical staff. The DHB is also working with the Capital Investment Committee in relation to urgent refurbishments, and new intensive care and gastrointestinal units are planned. The DHB told us that these projects would cost $25 million.

**Leaking facilities**

We were concerned that Dunedin Hospital has had recent problems with leaky facilities and asked the DHB to provide us with clarification about where leaks have occurred. Information provided showed that water had leaked through light fittings in one of the theatre suites in 2012; in 2013 there were ceiling leaks in two other theatre suites but no damage was recorded; a leak was also repaired in a room storing sterile equipment in 2013. The DHB reassured us that the facilities have been repaired and there are no longer any leaks.3 It said that it had spent $1.3 million of capital funds fixing the operating theatres.

**Breast reconstruction surgery**

We raised concerns with the DHB over waiting times for secondary breast reconstructions following mastectomies. It told us that the last secondary reconstruction was done in June 2014 and that 39 patients are currently waiting for reconstructions.4 The DHB does not have a plastic surgery centre, so it needs to work with the country’s four plastic surgery centres to perform the surgeries. It is developing a plan for the provision of breast reconstruction surgery which will be presented to the board in March.

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2 Otago Daily Times, Saturday 20 December 2014.
3 Southern District Health Board, Responses to post-hearing questions.
4 Ibid.
**Staffing**

We were told that staff retention in the Southern region has improved since the merger which formed the DHB in 2010, and that this has been helped by the DHB’s association with the University of Otago and the Dunedin School of Medicine. The chief executive officer told us that she conducts exit interviews with senior medical staff and that none have given financial or other pressures in the DHB as the reason for their departure. There had been issues in the past with employing radiologists but two have recently been employed in Invercargill. The DHB told us that it has very few vacancies in senior medical staff, carrying five to eight vacancies at any time. It also told us it is proud of having a low turnover of nursing staff, and of retaining older staff, many of whom have skills and experience that benefit the organisation.

We note that one of us is an electorate Member of Parliament in the Southern DHB region. She is very pleased with the willingness of DHB staff across the region to respond to requests on behalf of patients and said that when the DHB is approached it always responds and fairly assesses all cases.

**Immunisation**

Immunisation rates for 2013/14 in the Southern DHB exceeded national targets. We were pleased to hear this and asked the DHB how it had achieved this result. It told us that it is lucky to work with such an engaged community and that it works with primary care providers. Methods used to successfully target hard-to-reach teenagers during the Human Papillomavirus vaccination programme have been applied to all of the DHB’s immunisation programmes to improve its coverage.

**Population-Based Funding Formula**

The Southern DHB has the largest geographical area of all DHBs, much of it rural with a widely dispersed population. We asked the DHB if the Ministry of Health’s Population-Based Funding Formula (PBFF) was effective. The DHB said that its aging population places increasing demand on services, and that because the population is static it does not receive a corresponding increase in funding to meet this demand.

The DHB also told us that it has concerns over components of the rural adjuster that tend to maintain the current configuration, which may not always be appropriate to the needs of the population. While the DHB said the rural adjuster is of benefit, it also said that the tertiary service adjuster component of the PBFF lets it down. It explained that the number of services provided by the DHB is small compared to other DHBs of a similar size and that it delivers tertiary services to its population to a higher degree than the tertiary adjuster reflects. It noted that the PBFF is applied equally to all DHBs. We were told that the Southern DHB has received less than the sector average in funding for the last five years, which makes it difficult for the DHB to address its current deficit.

**Proposed changes to food services**

In February 2015 the DHB began consultation with staff on proposed changes to its provision of food services. It is proposed that the DHB joins a national arrangement that would outsource its food services to the Compass Group. The cost of implementing the new service is estimated at $1.2 million. The DHB acknowledged that staff will be affected if the Board decides to proceed with the proposal. It told us that if food services are provided.
outsourced, Compass Group will decide on staffing arrangements after consulting with DHB staff.

**Oral health**

We asked the Southern DHB what it is doing to increase the enrolment of Māori and Pacific children in its oral health services. It told us that its oral health team is working closely with its Māori health directorate to improve processes for increasing enrolments. It is targeting children from birth and has had some success but recognises that it needs to work hard to further increase enrolments.

**Bariatric surgery**

We were interested in the DHB’s provision of bariatric surgery. It told us that it is part of the South Island regional bariatric service and is proud of the service, which meets its delivery targets.
Appendix

Committee procedure
We met on 18 February and 1 April 2015 to consider the annual review of the Southern District Health Board. We heard evidence from the Southern District Health Board and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Office of the Auditor-General, Briefing on the Southern District Health Board, dated 18 February 2015.
Organisation briefing paper, prepared by committee staff, dated 16 February 2015.
Southern District Health Board, Responses to written questions, received 3 February and 24 March 2015.
2013/14 annual review of the Standards Council

Report of the Commerce Committee

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Standards Council

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of the Standards Council, and recommends that the House take note of its report.

Introduction

The Standards Council is an autonomous Crown entity that operates under the Standards Act 1988. The council’s principal function is to develop, and promote and facilitate the use of, standards and standardisation in New Zealand. Standards New Zealand is the operating arm of the council.

The council is a fully self-funded Crown entity, and recovers its operating costs primarily from third-party contracts for service and from the sale of publications.

A review of New Zealand’s standards system was initiated in 2012, at the request of the council. As a result of the review, in 2013 the Cabinet announced the disestablishment of the council. A new statutory board would be established to undertake the approval of standards, with an independent statutory officer located in the Ministry of Business, Innovation and Employment (MBIE) to undertake standards development, using independent expert committees. The Standards and Accreditation Bill, which seeks to make the legislative changes necessary to give effect to this decision, is currently before this committee.

The council is chaired by John Lumsden. Michelle Wessing has been Acting Chief Executive since September 2013.

Impending transition

We asked about the risks of the proposed new standards system, and the transition to MBIE. The council told us that they see a major transition risk in the potential loss of the significant portion of its revenue generated by the sale of, or provision of access to, standards. It has recommended that transitional arrangements allow the uninterrupted sale of existing standards, so that the new arrangement will not be disadvantaged. In its responses to written questions, the council also noted other risks to be managed around stakeholder engagement, staff engagement, business continuity, and retaining the contribution of volunteers, which it is addressing.

The bill seeks to strengthen the cost recovery model for standards by establishing a new body to set fees for access to standards and to recover the costs of developing, publishing, and providing access to them; the new body will also be able to enter into cost recovery arrangements for the development of new standards. The council believes that the system proposed in the bill would meet the needs of many stakeholders better than the previous one. It explained that it is constrained by the current funding arrangements, and that it hopes to see more regulators commissioning standards in the future.
Consultation over changes

We asked the council about its consultation with stakeholders over the proposed new system. We heard that this has been substantial, and that during the preparation of the Cabinet paper, the council and MBIE held many review and discussion panels. Once the Cabinet paper had been agreed, the council organised a national “roadshow” to consult interested groups around the country. The council is confident that the process has been thorough. It believes it has been very open and transparent, and engaged with all the stakeholders who wished to participate in the process.

International reputation

In scrutinising the bill, the committee heard concern expressed about the impact of the new system on New Zealand’s international reputation.

We asked the council whether relocating responsibility for standards within MBIE could adversely affect perceptions of the standards system’s independence. We were told that various standards models are used and accepted by the international community. We were also assured by the council that the inclusion of a statutory officer and statutory board in the new model has largely alleviated concern about a possible loss of independence or domination by regulators. The council acknowledges that this continued independence needs to be communicated to the international community; the content of the work programme itself could demonstrate that fears of Government “capture” are unfounded.

Financial sustainability

We are pleased with the council’s recent return to surplus. The council told us that although its financial performance is currently strong, its business is marked by long cycles, and lows will inevitably occur. We asked about its financial sustainability. The council said it is encouraging that MBIE regulators seem more likely to utilise standards than previously, and the leaner organisation should benefit the new system by helping smooth cyclical effects. The council considers the new system financially sustainable in the medium and long term, as increasingly significant revenue is coming from the commissioning of standards development by regulators.
Appendix

Approach to this annual review
We met on 19 February and 12 March 2015 to consider the annual review of the Standards Council. We heard evidence from the Standards Council, and received advice from the Office of the Auditor-General.

Committee members
Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received
Organisation briefing paper, prepared by committee staff, dated 9 January 2015.
Standards Council, Responses to written questions 1–127, dated 6 February 2014.
Standards Council, Responses to written questions 128–133, received 6 March 2015.
2013/14 Annual review of Tāmaki Redevelopment Company Limited

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 2013/14 performance and current operations of the Tāmaki Redevelopment Company Limited, and recommends that the House take note of its report.

Introduction

Tāmaki Redevelopment Company Limited (TRC) was established in 2012 as New Zealand’s first urban redevelopment company. It is a Crown entity with joint shareholdings by the Crown (59 percent) and the Auckland Council (41 percent). The company aims to achieve social, economic, and housing objectives in the Auckland area of Tāmaki over 20–25 years. Tāmaki incorporates the suburbs of Glen Innes, Point England, and Panmure.

TRC’s shareholders will be providing $11.8 million in funding over the three years 2014/15–2016/17 for its transformation programme. In 2013/14 the company’s total expenditure was $4.981 million, with a net deficit of $412,000.

We note this is the first annual review of the company. We are pleased that the Office of the Auditor-General considers the company to be well governed at present.

The “Tāmaki Way”

Martin Udale, a member of the TRC board, said that the vision for Tāmaki is a “strong and welcoming community where people thrive and prosper, celebrated for its distinct history and vibrant future”. We were told that the company’s approach is that this vision should be “owned” and influenced by the community. The company calls this approach the “Tāmaki Way”, and according to its website, it “respects the unique cultural identity and expectations of the people of Tāmaki”. TRC said that it is engaging with about 40 community groups.

The Tāmaki project is focussed on “regeneration”, and involves not only the physical building of houses in the area, but also the establishment of social and economic programmes. We commend TRC for its wide engagement with the community, and its broad social, economic, and cultural approach.

Cultural mapping

We asked about the cultural mapping of Tāmaki. Cultural mapping is community identification and documentation of its tangible resources such as distinctive landmarks, and intangible resources such as cultural histories and values. The Acting CEO, Peter Fa’afiu, told us that this is about understanding the history of Tāmaki, dating back about 400 years, in order to understand its future and “move forward together”. We heard that half of the residents of Tāmaki are Māori, the three mana whenua iwi being Ngāi Tai ki Tāmaki, Ngāti Pāoa, and Ngāti Whātua Ōrākei. The company has met with these iwi, and discussed their common history; Mr Fa’afiu told us that TRC is only halfway through the process of cultural mapping.
Regeneration projects

TRC said that it has had a plethora of challenges to address from the outset including crime, antisocial behaviour, and a lack of access to early childhood education. We were told that the company has worked to “build the community...and to start to give that community hope”.

Over the past few years TRC has initiated a series of projects, including a partnership with the Manaiakalani Education Trust in 2013, to help students obtain restricted driver licences, and thus improve their employability. TRC has also encouraged young adults to enter education programmes, such as its own Career Start programme, which teaches skills including curriculum vitae writing. We were impressed that recently 81 young people have entered full-time employment after completing this programme.

TRC emphasised that whilst it has received wide community support, in a community of 16,000 there are bound to be diverse views on its undertakings. It recognised the impossibility of satisfying everybody, hence its emphasis on community engagement. We were assured that the majority of the community has opted to be involved, and with enthusiasm.

Housing

TRC affirmed that housing development would be critical in catalysing the social, economic, and spatial improvement of the region. The company told us it is committed to achieving the Government’s goal of building around 7,500 new dwellings in Tāmaki. TRC hopes that this will make homes in Tāmaki more affordable.

We were assured that TRC has built relationships with business, mana whenua, iwi, and local community partners to reach this goal, and will continue to build on them. As housing redevelopment increases, TRC predicts that community housing providers will become key partners.

We were told that Tāmaki’s shareholders are pushing for accelerated housing development, and that TRC is committed to picking up the pace.

Home ownership

We observed that TRC’s work appears to focus on social housing, but wanted to know whether the aspiration of home ownership in the region was one of its goals. TRC said that it aims to increase the supply of affordable housing options by increasing the quantity of houses, and that not everyone in Tāmaki aims for home ownership. However, Mr Fa’afiu confirmed that TRC is working to increase the “financial capability” of the community, so that the aspiration of home ownership is attainable. He said that new possibilities were also being considered. He hopes, for example, that banks will “respond to our residents” by considering collective household income packages when calculating the ability to service a mortgage, especially for intergenerational households.

Housing New Zealand

Mr Fa’afiu emphasised that Housing New Zealand is a large stakeholder, and the “key” to accelerating housing development, and the project’s overall success. However, he noted that many other parties in social, economic, and education areas are also important.

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We heard that Housing New Zealand owns over 2,800 homes in Tāmaki. TRC said this represents 57 percent of all residential properties in the area, and 175 hectares of land.

TRC said that it needs to build as many houses as possible in partnership with Housing New Zealand. We were told that this partnership is working well, with both parties sharing the common purpose of building warm, insulated homes.

We asked about the rate of housing development, and heard that TRC’s market analysis suggests that 300–400 new homes could be built each year in the area. At this rate it would take 12–15 years to achieve the Government target of 7,500 new dwellings. However, TRC noted that this estimate is based on its current partnership with Housing New Zealand, and that other possible scenarios might accelerate the rate of housing development. Mr Fa'afiu suggested that the pace of building depends on the “levers” available to TRC. He said TRC will be seeking to bring in other partners, but that this would depend on the agreement of its shareholders.

We enquired about the proportion of land that will be retained by the Crown at the end of the regeneration project. Out of the 175 hectares, we were given a rough estimate of approximately one third, with the other two thirds likely to be eventually privately owned.

**Environmental sustainability**

We were pleased to read about some of TRC’s sustainable environmental practices in its draft Strategic Framework, published in June 2013. In particular, we were impressed that new buildings would utilise solar power, collected rain water, and sustainable building materials. We were assured that TRC is “committed” to environmental initiatives, and has been working with organisations such as Beacon Pathway, an incorporated society involved in research and promotion of sustainable housing.
Appendix

Committee procedure
We met on 19 March and 2 April 2015 to consider the annual review of Tāmaki Redevelopment Company Limited. We heard evidence from Tāmaki Redevelopment Company Limited and received advice from the Office of the Auditor-General.

Committee members
Scott Simpson (Chairperson)
Matt Doocey
Paul Foster-Bell
Julie Anne Genter
Joanne Hayes
Tutehounuku Korako
Ron Mark
Todd Muller
Eugenie Sage
Su’a William Sio
Dr Megan Woods

Simon O’Connor participated in the consideration of this item of business.

Evidence and advice received
Tāmaki Redevelopment Company Limited, Responses to written questions, received 17 and 30 March 2015.

Office of the Auditor-General, Briefing on Tāmaki Redevelopment Company Limited, dated 19 March 2015.

Organisation briefing paper, prepared by committee staff, dated 17 March 2015.
Arotakenga Pūtea ā-Tau o Te Reo Whakapuaki Irirangi mō te tau 2013/14

Te pūrongo a Te Komiti Whiriwhiri Take Māori

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Te Reo Whakapuaki Iirangi

Tūtohutanga

Kua whakaahaerea e Te Komiti Whiriwhiri Take Māori te arotakenga ā-tau o te tau 2013/14 mō ngā otinga mahi me ngā mahi matua o te wā nei a Te Reo Whakapuaki Iirangi, ā, ka tūtohu kia arongia e Te Whare tāna pūrongo.

Kupu Whakataki

He hinonga Karauna Te Reo Whakapuaki Iirangi. Ko te nuinga o āna pūtea āwhina nō Te Pōti Take Māori, ā, haere ai āna whakamāramatanga mō te whakatutukitanga mahi ki te Minita Take Māori. Mahi ai hoki i raro i te ingoa Te Māngai Pāho. He whakatairanga i Te Reo, i te tikanga Māori tāna mahi matua mā te hoatu pūtea āwhina mō te pāhotanga, whakanaonga me te whakapūranga hōtaka. Ko John Bishara te Kaihautū o Te Māngai Pāho, ā, nō mai anō i te tau 2004 a ia i roto i te tūranga. Ko Ahorangi Piri Sciascia te heamana. I te tau 2013/14, e $54.779 miriona te katoa o te whiwhinga a Te Māngai Pāho, ā, e $224,000 te tarepatanga.

Tauira huringa-matau

I te tau pūtea 2012/13, i whakapūmautia e Te Māngai Pāho te tauira “Huringa-matau” kia taea ai te whakatau i te whakamahia o Te Reo Māori i ia rā, ia rā, hei whakapai ake i te waiaro me te hīki i te mōhio. Whakamahi ai te tauira i tētahi iarere, me tana whai inetanga whānui, mai i te kore pūmanawa reo, e noho ana ki te taha mauī o te rārangi, tae noa ki te, pakari o te whakamahi i te reo, e noho ana ki te taha matau, ā, ka whakamahi noatia te reo i te wā e kauneko haere ana i te rārangi. Ka rite te hiranga ka hoatuna ki ngā kaunekenga katoa ka anga ki te taha matau. Ka kōrero mai te pokapū, kei te nui te hiahia mō tēnei tauira, kei te piki haere te uara kua utaina e te hipo whānui ki runga i te reo nā runga i tēnei.

Ka pātai mātou ki te pokapū, pēhea te pāngā o te tauira hou ki runga i ngā pūtea āwhina i ngā ratonga, ā, ka pēhea hoki tana hāngai ki te Rautaki Reo Māori i te Pire reo Māori e whakaarotia ana i tēnei wā. I kā mai Te Māngai Pāho, kei te tino kaha tana whakauru ki ngā whakahiaotanga e pā ana ki Rautaki Reo Māori ā, kua whakaukia hoki, me tā rātou whakauru ki roto i tō rātou Tauākī Whakamaunga Atu, ahakoa tana kore arotahi ki te timatatanga o Te Matawhai. I rongo mātou, tuku ai te tauira i ngā kaiwhakatakotokō hōtaka te āheitanga ki te aro turuki i ngā minenga me te whakatenatena i ngā minenga nohopuku1, kia neke whakamua atu i runga te iarere, kia eke ki te wāhi mātou rawa ana te reo. I whakatauki mai ia mō te hiranga o te whai wāhitanga o ngā tamariki, me te mahi akiaki i te whakamahia aauau o te reo. I whakaae Te Mangai Pāho, he uaua tonu te ine ti kia te mātataunga reo ki te kore e whakamātauria te matataunga kōrero o te kaikōrero. Ko tāna e ine ana, ko te nui kē o te reo e whakamahia ana i roto i ana ihirangi hōtaka.

1 Te hunga kei raro rawa te kaha ki te whakaaro, kōrero, tuhi, pānui i Te Reo Māori āngari, he hiahia tōna.
**Hoatu hōtaka Māori ki tāngata kē**

Ka pātai mātou ki Te Māngai Pāho, he aha te take i whakaae ai rātou ki te mahi a Te Reo Tātaki o Aoteaaroa ki te hoatu i ngā mahi whakataktoranga hōtaka Māori ki tāngata-kē. Ka kē mai ia, i whakatakoto tino whakautangia Te Reo Tātaki o Aoteaaroa ki te whakahaere tonu i ngā pāhotanga ihirangi Māori, engari, i hiahia kē rātou ki te whai huarahi pai ake, e ai ki tā rātou tirohanga. Ko te otinga o tēra, ko te hoatu i ngā mahi ki tāngata-kē. Kua roa te pokapū e whakaaro nui ana mō te pai o Te Reo Tātaki o Aoteaaroa hei huarahi ki te kautoro atu ki ngā minenga nui ake ki roto o Aoteaaroa. I meahia atu ngā kamupene whai wāhi mai, kia whakauru he mahere reo Māori ki roto i ō rātou tono marohei, he paearu wāhanga nui tēnei i raro i ngā tikanga whakamātau i ngā tōka.

**Tahua ICT Māori**

He pūtea kāwanatanga te tahuah ICT, ā, i tua atu i ētahi atu o ngā mahi, ko te whakatairanga me te whakatairohia i te tautoko i te reo i roto te ao hurihuri e kaha nei tana noho whakahirihi ki ngā hangarau mamati. Ka pātai mātou ki Te Mangai Pāho mō ōna mahere mō te whakamahi i te tahuah, e whai hua ai Te Reo Māori. I kē mai ia, kei te whitiwhiti whakaaro ia, me tōna whai ki te tāpae tuhanga whakamahia i te Minita mā te mutunga o te mārama o Poutūterangi. Ko tētahi o ngā pūmanawa matua o te pokapū, ko te tūtūri tahuah mā ngā hātepe puata. I kē mai anō ia, uhakoa ehe te ICT i te whāhunga mākohakoha, hāunga te mahi tūtūri.  

**Reo irirangi ā-iwi**

Ka pātai mātou ki te pokapū mō ngā wāhi o Aoteaaroa kāre e tārea te whiwhi i ngā pāhotanga o ngā reo irirangi ā-iwi, me ōna whakaaro hoki ki te whakatau i ōna tei. I rongo mātou, kāore i te tarekatia te AM/FM ki ētahi wāhi o Aoteaaroa nā runga i te takotoranga matawhenua, otirā, kua huri ētahi wāhi ki te whakamahi i te pāpāhotanga i runga i te ipurangi, i te mea, me māmā noa iho te toro atu, huri noa i te motu. Kē ki te whakamahi ētahi i te pāḥōtanga a SKY, me te nui ake o te utu, heoi anō, he toronga ki te motu whānui. Ahakoa he kaipāhō koko kē ki te reo irirangi Māori, i ngā wā kua whakaeto ngā poari ā-iwi ki te pāho mā runga i te ipurangi, he nui ake te minenga e kumekumehehi ana, i te mea, koinei tonu te āhua whānui o te hunga torotoro i te ipurangi, he nui ake rātou e torotoro ana i te ipurangi, e ai ki ērā e torotoro ana i ngā pāhōtanga AM/FM.

Ka pātai mātou mehemea i te whakaaroararo Te Mangai Pāho, mēnā i whakaritea ranakitia e rātou ngā ihirangi ērō Māori, i te mea, tutuki ai i te tuinga o ngā teihana, te itinga ihirangi ērō Māori i te whakataktororia mā te whakamahi i ngā whānagaitanga a ngā whakangahihia, i rongo mātou, e 20 tau ki mua, te wā i whakaturia ai ngā tikanga ihirangi, ā, e mea ana te pokapū ki te whakahou i ōna, me tana tikanga kia puta te mahi ngātahitanga ki waenganui i ngā teihana ā-rohe.

**Ngā hononga me Te Punī Kōkiri**

Ka pātai mātou i te pokapū mō te āhua o tōna hononga me Te Punī Kōkiri, me te tino uui atu, mehemea ka tārea anō te whakakapakari ake i te hononga. Ka kē mai te pokapū, ka whai kē ia i ngā arihantanga a te Minita, nā reira, ka hāngai kē ōna hononga e ai ki ngā hononga a te Minita me ngā kāhui, tāngata rānei e whai pānga ana. I whākī mai rātou, mō ō rātou hūnuku ki te noho kotahi ki te whare o Te Punī Kōkiri māi ai, nā tēnei, kua whai wāhanga tōna ake o ngā mahi whakapānga.
Tāpiritanga

Huarahi o te komiti

I hui mātou i te 18 o Hui-tanguru me te 11 o Poutū-te-rangi tau 2015 ki te whakaaroaro i te arotakenga ā-tau o Te Reo Whakapuaki Irirangi. I rongo taunakitanga nō mai i te pokapū, ā, i whiwhi whakamaherehere nō mai i Te Tari o Te Tumuaki o Te Mana Arotake.

Ko ngā mema o te komiti, ko

Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone
Rino Tirikātene
Mētīiria Tūrei

Te taunakitanga me te whakamaherehere i whiwhi

Te whakataktoranga tohutohu mō Te Reo Whakapuaki Irirangi i te 11 o Poutū-te-rangi tau 2015, a Te Tari o Te Tumuaki.

Te pepa whakataktoranga tohutohu mō te rōpū whakahaere nā ngā kaimahi o te komiti i takatū i te 18 o Hui-tanguru tau 2015.
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Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency)

**Recommendation**

The Māori Affairs Committee has conducted the annual review of the 2013/14 performance and current operations of Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency), and recommends that the House take note of its report.

**Introduction**

Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) is a Crown entity funded mainly through Vote Māori Affairs, and accountable to the Minister of Māori Affairs. It operates under the name Te Māngai Pāho. Its primary function is to promote Te Reo and tikanga Māori by funding the broadcasting, production, and archiving of programmes.

The chief executive of Te Māngai Pāho is John Bishara, who has been in the role since 2004. The chair is Professor Piri Sciascia.

In 2013/14 Te Māngai Pāho’s total revenue was $54.779 million, with a deficit of $224,000.

**Right-shift model**

In the 2012/13 financial year Te Māngai Pāho adopted the “Right-shift” model in order to normalise the use of Te Reo Māori, improve attitudes, and raise awareness. The model uses a spectrum, ranging from no ability at all at the left end, to active usage at the right end, moving through passive usage on the way. Equal importance is given to any shift towards the right.

The agency told us that this model is being well received, and that the value attributed to the language by society is increasing as a result of it.

We asked Te Māngai Pāho how the new model affected the funding of services and how it aligned with the new Māori Language Strategy, and the proposed Māori Language (Te Reo Māori) Bill. Te Māngai Pāho said that it was fully involved with the development of the Māori Language Strategy, and has adopted it and included it in its Statement of Intent, although it has not focussed on the introduction of Te Mātāwai. We heard that the model allows programmers to monitor audiences and encourage receptive audiences to move further along the spectrum to fluency. It emphasised the importance of involving children and generally encouraging active usage.

Te Māngai Pāho admitted that proficiency is difficult to measure reliably without testing speakers’ proficiency. What it measures is how much the language is used in the programme content.

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2 People with low ability in Te Reo Māori, but an interest in it.
Outsourcing of Māori programming

We asked Te Māngai Pāho why it approved the outsourcing of Māori programming by Television New Zealand. It said that TVNZ had given an absolute commitment to continue broadcasting Māori content, but wanted to do so in a way that worked better from its point of view; this involved outsourcing production. The agency has always viewed TVNZ as a good way to make Māori content available, as it is the best way of reaching large audiences in New Zealand. The production companies concerned had to include in their proposals a Māori language plan, which was an important criterion considered in evaluating tenders.

We will follow this situation with interest.

Māori ICT fund

The Māori ICT fund is a Government fund for, amongst other things, promoting and supporting the language in a world increasingly reliant on digital technology. We asked Te Māngai Pāho about its plans for using the fund to benefit Te Reo Māori. It said that it is consulting with a view of having a paper to the Minister by the end of March. One of the agency’s key strengths is distributing funding via transparent processes; it said that although ICT is not an area of expertise, accountable distribution is.

We will be interested to see how funding is allocated in future.

Iwi radio

We asked the agency about areas of New Zealand that could not receive iwi radio, and how it was planning to resolve this access issue. We heard that AM/FM coverage is not available in some parts of New Zealand because of its geography, but some areas have started using online broadcasting, which is easily accessible all over the country. Some are using Sky coverage, which costs more, but is nation-wide. Although Māori radio is a niche broadcaster, where iwi boards have chosen to broadcast over the internet, a large audience has been attracted, as internet audiences in general tend to be larger than those for AM/FM broadcasts.

We asked if Te Māngai Pāho considered it ensured adequate local Māori language content, as many stations meet their minimum language content requirement by using network feeds. We heard that the content requirements were set 20 years ago, and the agency intends to update them; and it encourages collaboration between local stations.

Relationship with Te Puni Kōkiri

We asked the agency about its relationship with Te Puni Kōkiri, and particularly whether it could be fostered more. The agency said that it works to the Minister’s guidance, so any relationships depend on the Minister’s relationships with the bodies or people concerned. It noted that it is now sharing premises with Te Puni Kōkiri, which has created opportunities for more contact.
Appendix

Committee procedure
We met on 18 February, 11 and 25 March 2015 to consider the annual review of Te Reo Whakapuaki Irirangi (the 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 Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone
Rino Tirikatene
Metiria Turei

Evidence and advice received
Office of the Auditor-General, Briefing on Te Reo Whakapuaki Irirangi (the Māori Broadcasting Funding Agency) dated 11 March 2015.

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

Te Māngai Pāho, Responses to written question, received March 2015.
Arotakenga ā-Tau o Te Taura Whiri I Te Reo Māori mō te tau 2013/14

Te pūrongo a Te Komiti Whirihirihirī Take Māori

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Arotakenga ā-tau o Te Taura Whiri I Te Reo Māori

Tūtohutanga

Kua whakahaerea e Te Komiti Whiriwhiri Take Māori te arotakenga ā-tau o te tau 2013/14 mō ngā otinga mahi me ngā mahi matua o te wā nei a Te Taura Whiri I Te Reo Māori, ā, ka tūtohu kia arongia e Te Whare tāna pūrongo.

Kupu Whakataki

He hinonga Karauna Te Taura Whiri I Te Reo Māori, ā, heke atu ai te nuinga o āna pūtea āwhina mā roto i Te Pōti Take Māori ki a ia. Nō mai i ētahi atu matapuna he wāhi pāku o āna pūtea āwhina, pērā i te moni whiwhi nō mā i te kirimana. I whakaturia te kōmihana i raro i te mana o Te Ture Reo Māori tau 1987, ki te whakatairanga i te whakamahinga o Te Reo Māori he i te reo ora, he i te whakawhitihitia whakaaro, whakawhitihitinga kōrero noa nei. He hinonga Karauna kei a ia anō tōna tino rangatiratanga, he poari e rima āna mema, ā, ko Te Puni Kōkiri tōna kaiaro turuki.

I te tau 2013/14, e $ 8.279 miriona te katoa o te whakapaungarotu a te komihana, ā, e $2.984 miriona te hemihemi. I puta ake te nuinga o te hemihemi nā te whakawhitihinga o te pūtea āwhina mō Te Kōkiringa Ako Hou Taketake mai i Te Hapori, mai i Te Tāhuhu o Te Mātauranga, ā, ko tētahi anō, i wehe kē te whakamāramatanga mō te pūtea āwhina a Mā Te Reo i mua atu.

Ko te tumuaki kairīwhi i te wā nei ko Tākuta Poia Rewi, ā, ko Ērima Hēnare te heamana i tēnei wā.

Ngā tūranga mahi

Tūranga tumuaki

Kotahi tau neke atu te tūranga o te tumuaki e noho tahanga ana, ā, nā runga i tērā ka pātai mātou ki te komihana, e pēhea ana tāna whakapau kaha ki te whakahū i tāua tūranga. Ko tana whakautou, e rika ana a ia ki te whakahū i te tūranga tahanga rā ēngari, he ititi noa ngā kaitono pūmanawa nohopuku. Nā, mō te whakapōtia i te utu ā-tau. Ki tō mātou whakapono, e tautāwhi ana tēnei i te utu tāngata kei a rātou ngā pūkenga e hiahiatia rā. Tua atu hoki, me tūturu raua atu Te Reo Māori o tētahi kaitono tika, ā, me mōhio, me wheako a ia ki ngā hātepe Kāwanatanga. Tua atu hoki, me wheako a ia ki ngā āhuatanga whakahaere. Nā, mō te taha ki āna rārangihiku rau Māori, me tino uru atu ngā kia tika, me tino uru atu aua papa a rōtu i Te Reo Māori. Kua whakatakoto Te Komihana O Ngā Tari Kāwanatanga kia kau a te pūmanawa nohopuku a tōrō tautū i te teitei i te $200 mano, ā, kore raua e tukua e ia tēnei kia whakapikia. Kīhia anō he kaitono tika kia kitea e te komihana ūā te āhuatanga a te pūtea āwhina kei a ia, kia taea ai he tohunga kei a ia ngā tohungatanga teitei e wawatahia rā. Ka hiahia mātou ki te whai ake i te āhuatanga nei; ko te tūmanako ia, ka wawe tonu pea te whakatau i tēnei me te wawata ka rongo kōrero i te wā e tutuki ana.

Ngā tūranga noho tahanga

I roto i te tau 2013/14, he teitei te huhua o kaimahi a te komihana. O ngā kaimahi e te kau mā iwa, e ono ngā kaimahi hou, e whā i rihana. Ka pātai mātou, he aha āna mahere kia
kore ai e pērā te rahi rawa o ngā kaimahi e mutu ana. Ko te whakautu a te komihana, ko āna wawata mā te whakaingoa tumuaki hou e pai ake ai te pūmautanga.

**Ngā hohoretanga i ara ake i te tātari kaute**

Nā mātou ngā hohoretanga i whakaharinui ake i te taha o te komihana, ērā i kītea ake i roto i te tātari kaute a Te Tumuaki o te tau 2013/14; kia whakapaitia ake e te komihana tāna tāiao pupuri whakahaerenga, āna mana, āna pūnaha whakamōhiiohio pūtea, āna whakamōhiiohio otinga mahi ratonga, tae atu ki ngā mana me ngā pūnaha e haere ana i te taha. Ko tā te komihana ki a mātou, ko tēnei te hua o ngā take tohetohe ka haere tonu, nā ngā tūranga noho tahanga kua oti te tohu i runga ake nei, ā, me tā mātou mihī anō ki ngā take kua oti te hōmai.

Ka whai ake mātou i ngā hohoretanga nei i tā mātou arotakenga kei te whai ake.

**He Puna Whakarauora**

He whānau whanaketanga, he whānau rangahau a te komihana a He Puna Whakarauora, tērā i whakataūria i te mara mara o Hakīhea i te tau 2013. Ka uiuitia e mātou te komihana mō tēnei ake mahi hou, ā, mehe me he kaa a ia i te whāki noa mai ka mahara te mea mai, “ka haere tonu te mahi”, ā, me te whakahihaito rautaki māna. Ko tāna ake i mea mai, ka haere tonu āna mahi matua i raro i te mana o Te Ture o Te Reo Māori o te tau 1987, ki te wā rā anō e mana ai Te Pīrere Reo Māori.

**Te Rautaki Reo Māori**

Ko tā te komihana ki a mātou, kāore ēnā raruraru ki tērā e hiahiatia ana e Te Rautaki Reo Māori ēngāri, ki ēnā whakarero kāore a Māori mā i ngā tāone i te manaakitia. Ko tētahi anō, kāore ngā reo ā-iwi i te aro nuitia rawatia.

Ka pātai mātou mō ngā whakahihāruntanga o Te Pīrere Reo Māori ki te komihana, ā, ka rongo mātou mō ngā tūranga me ngā tūmanoko o te komihana, hoatu aronga ai te pīrere; heoi ka hiahia he whakamāramatanga i ētahi wāhi. Ko te hiahia kia mārama kē atu te whakahihāruntanga mō te tangohinonga Karauna, mai i te marumaru o te hinonga Karauna; tua atu hoki, ka pēhea te whakamahi hononga noa i waenganui i Te Mātāwai, Te Puni Kōkiri me Te Taura Whiri i te Reo Māori. Kāore hoki i te mārama ngā whakaharataunga e pā ana ki ngā mahi matua o te komihana, te wā o te hanganga ture, te whakatinatanga o te tuawhi hou.

Nā, e hiahia ana mātou ki te whai ake i ngā wāhi e māharaharataia ake nei.

**Te tahu pūtea Mā Te Reo**

He pūtea āwhina te tahu pūtea Mā Te Reo, mā ngā mahi hou Te Reo Māori i taketake mai i te hāpori. Ka pātai mātou ki te komihana mehe mehe me ka kaha ia ki te whakangata i ngā kaitono katoa, tērā hunga ka hia mano kē pea te tokomaha. Ka mea te komihana, i raro i te mana o Te Rautaki Reo Māori hou, me whakarerekēngia i ia āna kaupapa here tūtou pūtea āwhina, kia eke ai ki ngā whakaritenga a Te Minita.
Tāpiritanga

Huara hi o te komiti
I hui mātou i te 18 o Hui-tanguru, i te 11 me te 25 o Poutū-te-rangi i te tau 2015 ki te whakaaroaro i te arotakenga ā-tau o Te Taura Whiri I Te Reo Māori. I rongo taunakitanga mātou nō mai i te komihana, ā, i whiwhi whakamaherehere nō mai i Te Tari o Te Tumuaki o Te Mana Arotake.

Ko ngā mema o te komiti, ko
Tūtehounuku Kōrako (Heamana)
Hōnore Chester Borrows
Mārama Fox
Joanne Hayes
Hōnore Nanaia Mahuta
Pita Paraone
Rino Tirikātene
Mētiria Tūrei

Te taunakitanga me te whakamaherehere i whiwhi
Te whakataktoranga tohutohu mō Te Taura Whiri I Te Reo Māori i te 11 o Poutū-te-rangi tau 2015, a Te Tari o Te Tumuaki o Te Mana Arotake.

Te pepa whakataktoranga tohutohu rōpū whakahaire nā ngā kaimahi o te komiti i takatū i te 18 o Hui-tanguru tau 2015.

Ngā urupare a Te Taura Whiri I Te Māori ki ngā pātai i tuhia, ā, i whiwhi i te marama o Poutū-te-rangi tau 2015.
2013/14 Annual review of Te Taura Whiri I Te Reo Māori (the Māori Language Commission)

Report of the Māori Affairs Committee

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2013/14 Annual review of Te Taura Whiri I Te Reo Māori (the Māori Language Commission)

**Recommendation**

The Māori Affairs Committee has conducted the annual review of the 2013/14 performance and current operations of Te Taura Whiri I Te Reo Māori (the Māori Language Commission), and recommends that the House take note of its report.

**Introduction**

Te Taura Whiri I Te Reo Māori (the Māori Language Commission) is a Crown entity funded mainly through Vote Māori Affairs, with a small amount of funding from other sources, such as contract income. The commission was set up under the Maori Language Act 1987 to promote the use of Te Reo Māori as a living language and ordinary means of communication. It is an autonomous Crown entity, with a board of five members, and is monitored by Te Puni Kōkiri.

The commission’s total expenditure in 2013/14 was $8.279 million, with a surplus of $2.984 million. The surplus is mainly due to the transfer of Community Based Learning Initiative funding from the Ministry of Education, and Mā Te Reo funding having been previously accounted for separately.

The acting chief executive of Te Taura Whiri I Te Reo Māori is Dr Poia Rewi, and the current chair is Erima Henare.

**Staffing**

**Chief executive role**

The chief executive’s role has been vacant for over a year and we asked the commission what efforts were being made to fill it. It said that it was keen to fill the vacancy, but the pool of potential applicants was small, and the salary cap, we believe, inhibits hiring people with the required skill base. A suitable applicant would have to be fluent in Te Reo Māori and have knowledge and experience of Government processes, as well as management experience, and his or her vocabulary would need to include the terms of those fields in Te Reo Māori. The State Services Commission had set the potential salary at no higher than $200,000, and would not allow this to be increased. The commission had not yet found a suitable applicant because it could not afford the required expertise. We will follow this situation with interest; we anticipate that this will be resolved as soon as possible, and expect to hear when it is complete.

**Vacancies**

The commission has had high staff turnover in 2013/14, with six new employees, and four staff out of nineteen resigning. We asked it what plans it had to stop staff leaving in such numbers, and it said it hoped the appointment of a new chief executive would improve stability.
Deficiencies raised in audit

We raised with the commission the deficiencies found in the Auditor-General’s 2013/14 audit, in which the commission’s management control environment, financial information systems and controls, and service performance information and associated systems and controls were all found to be in need of improvement. The commission told us that this was the result of the persisting issues with vacancies as identified above, and we acknowledge the reasons given.

We will follow up these deficiencies in our next review.

He Puna Whakaraupō

He Puna Whakaraupō is the commission’s research and development unit, which was established in December 2013. We asked the commission about this particular initiative, and whether it had been able to diverge from “business as usual” to formulate its strategy. It said that until the Māori Language (Te Reo Māori) bill is enacted, it will continue to function under the Maori Language Act 1987.

Māori Language Strategy

The commission told us that it has no problems with the intent of the Māori Language Strategy, but feels that urban Māori are being overlooked, and dialects not given enough attention.

We asked about the implications of the Māori Language (Te Reo Māori) Bill for the commission, and heard that the bill provides direction regarding the roles and expectations of the commission; however some areas need clarification. The implication of removing Māori language entities from the Crown entity environment needs to be clearer; also, how the relationship between Te Mātāwai, Te Puni Kōkiri, and Te Taura Whiri i te Reo Māori should work in practice. The practicalities of the commission’s operations and the timing of the legislation and the implementation of the new structure are also unclear.

We will follow these areas of concern with interest.

Mā Te Reo fund

The Mā Te Reo fund is a fund for community-based Te Reo Māori initiatives. We asked the commission if it has the capacity to satisfy all of the applicants, who are likely to number in the thousands. The commission said that under the new Māori Language Strategy, it will have to change its policies to direct funds in line with the Ministers’ requirements.
Appendix

Committee procedure
We met on 18 February, 11 and 25 March 2015 to consider the annual review of Te Taura Whiri I Te Reo Māori (the Māori Language Commission). We heard evidence from the commission and received advice from the Office of the Auditor-General.

Committee members
Tutēhounuku Korako (Chairperson)
Hon Chester Borrows
Marama Fox
Joanne Hayes
Hon Nanaia Mahuta
Pita Paraone
Rino Tirikatene
Metiria Turei

Evidence and advice received
Office of the Auditor-General, Briefing on Te Taura Whiri I Te Reo Māori (the Māori Language Commission) dated 11 March 2015.

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

Te Taura Whiri I Te Reo Māori, Responses to written questions, received March 2015.
2013/14 Annual review of
Television New Zealand Limited

Report of the Commerce Committee

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Television New Zealand Limited

Recommendation

The Commerce Committee has conducted the annual review of the 2013/14 performance and current operations of Television New Zealand Limited, and recommends that the House take note of its report.

Introduction

Television New Zealand Limited (TVNZ) is a Crown entity, and New Zealand’s national broadcaster. It operates six channels, two of which are digital Sky channels. TVNZ also operates an online video content site and a news website.

Its shareholding Ministers are the Minister of Finance and the Minister of Broadcasting. TVNZ is subject to the provisions of the Crown Entities Act 2004, the Companies Act 2003, and the Television New Zealand Act 2003. Kevin Kenrick is the chief executive, and the chairperson of the board is Wayne Walden.

For 2013/14 TVNZ generated revenue of $360.585 million (compared with $362.11 million in 2012/13). Net profit after tax was recorded at $18.111 million, exceeding the previous year’s result by $3.671 million.

Property sales

SkyCity

In 2013 TVNZ sold land and buildings on Hobson Street in Auckland to SkyCity. TVNZ decided that it could accommodate more staff at its primary building by refurbishing it, after which the Hobson Street properties would become surplus to requirements. This is consistent with its property holdings activity elsewhere. TVNZ has sold buildings and land in Christchurch and downsized its office space in Hamilton.

TVNZ sought a valuation of the Hobson Street land from an approved property valuer. It then put the land on the market without advertising it for sale; TVNZ believes that the sale was common knowledge. Afterwards, SkyCity approached TVNZ with an offer above the valuation, and the sale was completed. The TVNZ board said it decided to sell the land and buildings in its own best interests.

We asked TVNZ about some details of the sale process. We wanted to know if the valuation sought for the property took into account its current intended purpose as a hotel, and heard that TVNZ only sought to determine the market value for the land and buildings as they stood; use as a hotel was not a specified use when the valuation was made. We also asked whether TVNZ had discussed the sale with Ministers, and heard that the board chairman had “a few conversations” with the Minister. He reiterated, however, that the Minister did not influence the sale. We also asked whether the Government consulted TVNZ regarding a restrictive covenant which prevents the land being used for a purpose other than a convention centre, and heard that TVNZ was not aware of any covenant on the land; none applied to its sale of the property.
Archive

In 2013/14, TVNZ sold its archive assets for $9.3 million. We heard that the sale was of the archives’ land and buildings, and the responsibility for the custodianship of the contents of the archive has been passed onto the Crown. TVNZ and other content providers will still own content rights. We heard that the sale was intended to help the Crown to consolidate its archives and achieve economies of scale.

Financial performance

As in the previous financial year, TVNZ paid no dividend to the Government in 2013/14; it put this money instead towards the refurbishment of its Victoria Street headquarters. We heard that the dividend payment would otherwise have been in the region of $22 million over the last two years. TVNZ said that it had a dividend relief agreement with the Minister, and it expects to be paying a full dividend again in 2016.

TVNZ made significant cost savings in 2013/14, largely because transmission costs fell as a result of the country’s switch from analogue to digital broadcasting. The savings were approximately $9 million, which were not reallocated. We heard that in 2013/14, TVNZ has focused on maximising cost savings, particularly in areas other than programming.

Investments

TVNZ invested approximately $30 million in Igloo and Hybrid Television, which are a pay TV service and exclusive licensee of TiVo, respectively; however, in 2013/14 it decided to exit its shareholdings in these ventures. Regarding the Hybrid investment, TVNZ said it did not understand the ramifications of the outdated technology involved; and TVNZ believes there was a misalignment of strategic views between itself and Sky Television, its partner in the Igloo investment. We therefore asked TVNZ whether it is satisfied with its ability to analyse industry trends. It told us that it operates in a dynamic market and it believes that it is a strongly performing organisation.

TVNZ told us that it is now focusing on investing in what most meets consumers’ needs and is most likely to give it a good financial return. To this end, it has disposed of its non-core and underperforming assets, and doubled its investment in on-demand television, which has had revenue growth in the millions of dollars. We asked if Ministers have held TVNZ to account regarding these investments, and heard that TVNZ has completed post-implementation reviews of both investments, and sought internal and external reviews to ensure it learns from them. It accepts that it will not be successful with every investment, and acknowledges it needs to get more right than wrong and learn from its mistakes. We agree with this, and will continue to monitor its investments. The Labour members of the committee expressed significant concern in the light of failures in other Government entities in recent years, and said that there should have been more rigorous accountability around the failures of Igloo and Hybrid.

Outsourcing Māori and Pasifika programming

TVNZ is obliged to provide high-quality content that is relevant to New Zealand audiences, encompasses both New Zealand and international content, and reflects Māori perspectives. Recently TVNZ outsourced the production of various Māori and Pasifika shows; we understand it will, however, still be screening them. We asked whether TVNZ still considers that it has a responsibility to ensure diversity of programming. It stressed the
difference between producing a show and screening it; by screening the shows, it is still meeting its obligation to reflect Māori perspectives and screen New Zealand content.

Recent media comment has questioned the health of TVNZ’s relationship with Māori and Pasifika communities, and we asked TVNZ to respond. We heard that it believes its engagement with Māori communities has increased recently; it plans to continue building this relationship. TVNZ said that it values the Māori community’s thoughts on the health of their relationship. Regarding the Pasifika community, TVNZ believes there may have been a mistaken belief that the outsourced shows were not going to continue, but it has been clarified that this is not so, with positive responses.

**Gender equality**

In an unfortunate incident recently TVNZ posted an online beauty contest between its blonde-haired female presenters, and we asked TVNZ to explain its commitment to gender equality. We heard that TVNZ is proud of its gender diversity: 44 percent of employees are female, the board is evenly divided along gender lines, and 25 percent of its executive team is female. We were pleased that TVNZ dealt with the recent issue quickly, and that it shares our concerns on the matter. We would like TVNZ’s news items to feature less categorising of women.

**Chief executive’s salary**

The TVNZ chief executive’s salary increased by 37 percent last year, and we asked for TVNZ’s opinion on salary increases paid to chief executives, given that many public sector employees are receiving small or no pay increases. TVNZ explained that its board commissions independent advice on salaries, which takes into account market trends and payment bands; the chief executive’s salary represents a fair price in the market. We heard that in order to attract accomplished candidates to this position TVNZ needs to take into account market value.

**Programming**

**Q+A**

We noted that the Q+A television programme costs $900,000 to fund per year, with a viewership of around 70,000. In Australia, the equivalent programme is successfully played on primetime television, and we asked why the same does not happen here. We heard that TVNZ has researched the issue, and it discovered that Q+A does not attract enough viewership to justify being screened on primetime; Sunday morning is traditionally a good time to screen current affairs programming, here as in many other countries. In a business sense, TVNZ needs to screen its most successful shows during primetime hours.

**Netflix**

Recently, Netflix announced that it will start operating in New Zealand, and we asked whether TVNZ believes Netflix will pose a threat to TVNZ’s share of the market. TVNZ told us that Netflix will be a viable competitor, but that it expects its arrival to have a positive effect as well; it will help to grow interest and demand for on-demand services, which TVNZ is ready to accept. However, the two products are slightly different: Netflix offers online-subscription video where you can access older content, while TVNZ on-demand focuses on delivering recent content which is free to view.
Technology
As new technologies develop they take time to build, but at a certain “critical mass” their development accelerates. We were assured that TVNZ pays close attention to the technologies relevant to its business. It has invested significantly in its online platforms, with the aim of increasing its capacity. We heard that it is focusing on being a video-content provider, being able to deliver content on a variety of platforms and devices, and ensuring that it can adapt to whatever consumers choose to watch content on.
Committee procedure

We met on 12 March and 2 April 2015 to consider the annual review of Television New Zealand Limited. We heard evidence from Television New Zealand and received advice from the Office of the Auditor-General. The advice and evidence received, as well as the transcript of the hearing, are available on the Parliament website www.parliament.nz.

Committee members

Melissa Lee (Chairperson)
Kanwaljit Singh Bakshi
Dr David Clark
Hon Judith Collins
Clare Curran
Kris Faafoi
Brett Hudson
Gareth Hughes
Simon O’Connor

Evidence and advice received

Television New Zealand Limited, Responses to written questions, received 9 and 23 March 2015.

Office of the Auditor-General, Briefing on Television New Zealand Limited, received 9 March 2015.

Organisation briefing paper, prepared by committee staff, received 9 March 2015.
2013/14 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 2013/14 performance and current operations of the Tertiary Education Commission, and recommends that the House take note of its report.

Introduction

The Tertiary Education Commission (TEC) is a Crown entity. The TEC’s principal role is to issue guidance and allocate funding to more than 700 tertiary education organisations, and monitor their performance. It also provides advice to the Government on the tertiary education sector. In 2014, the TEC agreed on a business strategy with three key pillars: to promote the value of a tertiary education; to build close partnerships with institutions, businesses, and students; and to refocus how the TEC invests in the sector to ensure a better return and a greater impact. The TEC proposes to prioritise achieving greater value and relevance from its spending in the tertiary education sector, and deepening its partnerships with colleague agencies, tertiary institutions, businesses, and learners. In the year under review, the TEC’s total revenue was $2.826 billion. The TEC recorded an operating surplus of $11.764 million. The strategy and policy functions of the TEC have been transferred to the Ministry of Business, Innovation and Employment (MBIE) and the Ministry of Education, which have jointly authored the current tertiary education strategy which is being implemented by the TEC.

Meeting labour market demand

We were interested to hear about how the commission ensures that funding is directed towards tertiary places more likely to lead to future employment, rather than those where employment opportunities were weakened by over-supply. The TEC is focused on ensuring that learners are equipped from the outset with full information about completion rates, employment opportunities, and likely future income from various courses of study. We heard that the TEC works with partner agencies, such as the Ministry of Business, Innovation and Employment, and the New Zealand Qualifications Authority, in building systems for information sharing to ensure that school leavers and other learners are provided with coherent, accurate advice about their future employment prospects. This new level of coordination will also help the tertiary institutions to ensure they are well informed of labour market dynamics. We note the need for close cooperation between TEC, MBIE, NZQA, and the Ministry of Education to ensure sufficient clarity and focus across the tertiary education system. This is important both to optimise the use of scarce resources and to ensure timely information to students about employment pathways. We will continue to monitor both the horizontal cooperation across institutions and the effectiveness of these vertical pathways going forward. In meeting the demands of the labour market, the TEC plays a vital role in ensuring provision of tertiary education services at each of the post-graduate, graduate, and skills training levels. We note the importance of non-degree training in meeting the rapidly changing needs of the modern labour market.
Ensuring a wide level of provision

We heard that the TEC is very conscious of the need to maintain a network of provision across the country and to respond to the specific needs of, for example, people not in education, employment or training (NEETs). The commission told us it is committed to providing widespread availability to foundation-level courses. Once learners progressed towards diplomas and degrees, the TEC focused its funding on regional centres. The commission told us that it does not decide where institutions should be located. The commission has found that, where student demand existed, institutions often responded by establishing a new campus or means of delivering the course of study in demand. While the process was market-driven, the TEC took seriously its role in maintaining the vitality of tertiary institutions outside of main centres.

Support for people entering the tertiary system

In some parts of the country, institutions funded to progress NEETs through foundation studies at NCEA levels 1 and 2 are reporting that once this standard has been met, there is no obvious “next step” to further education or training. There are no nearby institutions available to move on to. We asked if TEC was giving thought to transferring some of the NEET funding to meet learners’ needs at NCEA levels 3 and 4, once these people have worked their way through the system.

We were advised that the challenge posed by NEETs in areas like Northland was still a long way from resolution. While it is possible to move funding around within the NEETs portfolio, the TEC is confident that funding is currently well matched to needs in this area. We raised the concern, however, that NEETs funding beyond NCEA level 2 frequently stipulates that the learner must be in a classroom environment for a certain number of hours a week; this seemed to rule out the online learning programmes that were for many NEETs in non-urban areas the only available option. TEC acknowledged that classroom attendance was a shifting concept in an environment where more than 50 percent of all tertiary courses include an online element.

Training and support for priority learners

Māori and Pasifika trades training

We heard that the Māori and Pasifika Trades Training programme is enjoying strong success; 1,000 learners joined the programme in 2014. This year enrolment was on track for 1,400. The programme’s success was attributed to its strong connections with employers and the community, as well as the training institution. There is some additional cost involved in this consortium model on a per-EFT basis, but this is offset by strong completion and post-study employment rates.

Māori and Pasifika tertiary education

We heard that the TEC is currently finalising at board level its strategy to ensure that there is parity between Māori and non-Māori tertiary education results. We were told that this implementation plan will be finalised by 30 June 2015, and we look forward to seeing the plan and how it is implemented. We also asked about support for Māori and Pasifika enrolled in degree-level courses, citing anecdotal concern that some institutions were enrolling students unlikely to be able to complete their course successfully. We heard that recent research carried out by the TEC confirms that successful completion by Māori and Pasifika students often requires a higher degree of “wraparound” pastoral support. TEC
sees the involvement of whānau throughout a learner’s education as critical to ensuring that expectations are properly grasped before tertiary study begins. For this reason, the TEC is taking a systemic view of the challenge, and drawing on the successful model used in familiarising Māori and Pasifika whānau with the NCEA system. We heard that the Government’s strategy goals for Māori tertiary education are on the right track. Numbers of Māori and Pasifika enrolments have significantly increased, with over 3,000 more Pasifika students joining the tertiary system in Auckland over the last four years. We look forward to receiving the Māori strategy once this has been approved by the board.

**New Zealand universities’ international rankings**

We expressed concern that New Zealand’s universities are reportedly losing ground in international rankings and asked what TEC is doing to remedy this. We heard that some of the perceived slide in New Zealand universities’ international rankings is due to a perceived lack of high level research. TEC proposes linking Crown research institutes—which will retain independent governance—with universities to improve this situation. This would be the case at Lincoln University, where dairy industry research by AgResearch is intended to form part of a research hub at the university. We noted that the private sector frequently funded high-level research at top international universities and heard that this already happens in New Zealand. The TEC said the eventual goal is to attract international business investment as a result of New Zealand’s reputation for high quality applied research.

**Cross-accreditation between institutions**

We heard that the practice of offering tertiary students in New Zealand the chance to cross-accredit papers between universities, whether elsewhere in New Zealand or offshore, is on the rise in New Zealand universities, and resonated with the need for universities to develop an area of specialty. Students at the University of Auckland are able to carry out a year of applied research at Lincoln University and still graduate with a University of Auckland degree. Some universities also offer students the chance to complete papers at universities offshore, in some cases resulting in double-badged degrees.

We heard that there is still work to be done in establishing a way to cross-accredit consistently between all tertiary institutions, including Private Training Establishments (PTEs) whose training might lead a student into a university or other tertiary environment. We heard that the Auckland University of Technology (AUT) has established strong pathways between itself and all relevant PTEs and other feeder institutions, because it is in AUT’s commercial best interest to do so.
Appendix

Committee procedure
We met on 25 February and 1 April 2015 to consider the annual review of the Tertiary Education Commission. We heard evidence from the Tertiary Education Commission and received advice from the Office of the Auditor-General.

Committee members
Dr Jian Yang (Chairperson)
Hon Judith Collins
Hon David Cunliffe
Catherine Delahunty
Paul Foster-Bell
Hon Paul Goldsmith
Chris Hipkins
Melissa Lee
Tracey Martin
Jenny Salesa
Hon Maurice Williamson

Evidence and advice received
Tertiary Education Commission, Responses to written questions, received 30 January and 10 March 2015.
2013/14 Annual review of Transpower New Zealand Limited

Report of the Finance and Expenditure Committee

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Transpower New Zealand Limited

Recommendation

The Finance and Expenditure Committee has conducted the annual review of the 2013/14 performance and current operations of Transpower New Zealand Limited, and recommends that the House take note of its report.

Introduction

Transpower New Zealand Limited is a State enterprise under the State-Owned Enterprises Act 1986. It plans, builds, maintains, and operates New Zealand’s national grid, and it is responsible for transporting bulk electricity from generation sites to population centres and major industrial users, and connecting with lines companies that supply power to end users. Transpower is regulated by the Commerce Commission and the Electricity Authority (formerly the Electricity Commission). Its chief executive is Alison Andrew and Mark Verbiest is chairperson of the Board.

Financial performance

Transpower’s operating revenue in 2013/14 increased by just over 9 percent to more than a billion dollars, following the completion and commissioning of two major projects: the North Auckland to Northland project and the final stage of the Cook Strait link project. However, higher depreciation and interest costs related to the capital building programme contributed to an overall 18 percent decline in net profit. Total dividends to the Crown in 2013/14 were $151 million.

We were pleased to see that in 2013/14, as in 2012/13, Transpower received ratings of “very good” from the Office of the Auditor-General for its management controls and financial information systems and controls, and that no deficiencies were noted in the areas that the auditors considered to form an opinion on Transpower’s financial statements. We commend Transpower on reaching and maintaining this high standard.

We asked Transpower what lessons it had learned from the major projects it has been involved with in recent years, noting that the North Island grid upgrade project exceeded the maximum allowable cost approved by the Electricity Commission by approximately $70 million. We were told that the overall cost of the three major projects was below the approved cost. Transpower told us that the urgent need to deliver the North Island grid upgrade project had involved particular difficulties, for example regarding access to landowners’ properties and infrastructure installation rights. It does not expect similar challenges to arise again.

Operational performance

Transpower’s annual report notes that it did not meet its targets for the availability of HVDC circuits. We were told that the Cook Strait link’s availability, for example, was

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1 The Electricity Commission approved the maximum allowable cost before it was disestablished. All major project costs are now considered by the Commerce Commission.

subject to outages while the new HVDC Pole Three system was commissioned, but that now the link is complete, expected availability is likely to be around 97 percent. There were also more loss of supply events than the target for tolerance. Transpower said that some of these incidents resulted from adverse weather for which it is impossible to plan. We note the company’s assurance that it will continue to set strict reliability targets; we share their assessment that reliability is one of the most important measures of performance, and will continue to monitor this critical area closely.

We asked Transpower for an update on the investigation of a fire in the Penrose substation late last year. We heard that it was located in a Vector cable in a cable duct on the Penrose station, and that Transpower is working with Vector to determine the cause. The investigation is awaiting a report from an independent analyst from the UK.

We are concerned that Transpower did not meet its target of avoiding injuries causing permanent disability, with one such injury during the review period. While we appreciate that Transpower employees work in a high-risk industry where small mistakes can cause serious injury or death, we agree with the company that it should continue to aim for zero harm. We hope to see that this has been achieved when we next conduct our review.

**Regulation**

Transpower operates within regulatory control periods set by the Commerce Commission. Revenue, expenditure, and performance targets for each period are set for Transpower’s transmission business on a five-year cycle. The second period will cover 1 July 2015 to 30 June 2020. We were told that regulatory decisions that the Commerce Commission has recently made regarding this next five-year period will result in lower revenues, which will affect Transpower’s financial performance, at least in the short term. Transpower assesses the likely financial impact as a reduction in revenue of around $75 million per annum.

Despite this high figure, we heard that Transpower had not requested a capital injection from the Government, as it does not believe it will be necessary. The company plans instead to focus on areas over which it has some control, and where it can operate more effectively. We were pleased to hear that Transpower’s contingency planning does not put ongoing maintenance of the national grid at risk. We note its comment, however, that there is a fine line to walk between making sure the system is robust and reliable, and doing so at a cost which consumers would find unbearable.

**Asset management**

In 2011 the Office of the Auditor-General made a number of recommendations to Transpower regarding its management of risks to its transmission assets, and we note that Transpower has made progress in addressing them. We asked for details of the asset management programme. Transpower said that in the year under review it achieved certification under an internationally-recognised programme for life-cycle management of physical assets.³ The company needs $300 million to $400 million of capital investment to continue to refurbish and maintain its assets, and we were told that it concentrates on keeping the system robust and the assets performing well so that power supply remains reliable.

³ The British Standards Publicly Available Specification for Asset Management.
**Future focus**

We were told that now Transpower has completed the last of its major transmission projects, it plans to shift its focus to developing new technologies and solutions to get more from existing assets. We were interested in two major initiatives in this area: demand response and dispatchable demand, which are both designed to improve customers’ experience and operate the grid more economically.

Demand response—where electricity customers are paid to reduce their electricity demand temporarily—is being seen as an alternative to having to build new transmission capacity. While the forecast for future demand is relatively flat, Transpower acknowledges that there is a good deal of uncertainty. One-off events such as a big company changing its operating activity, or a decision about the future of the Tīwai Point aluminium smelter, or developments in the economy or in energy efficiency, such as the spread of distributed generation and the use of electric vehicles, can change the equation swiftly.

We heard that Transpower undertook a project with the Electricity Commission on dispatchable demand, another initiative for managing load more effectively. It would allow large users to offer their load to the wholesale electricity market; and they can be instructed, if the pricing conditions are right, to reduce demand if their offer is less than the next generation offer for any given half hour.

We appreciate that Transpower needs to perform a delicate balancing act to meet future customers’ needs; and we will be interested to hear about the progress of these two initiatives and any other efforts by Transpower to find innovative solutions to the management of demand, availability, and costs.

**Auckland**

When we last reviewed Transpower, we queried its preparedness for increased demand for electricity in the Auckland area. Transpower confirmed that its position this year remains the same: the company considers it is well prepared for managing the needs of Auckland, after significant investment including the North Island grid upgrade project. We heard that there is now a “ring main” around Auckland feeding into two new substations. Transpower recognises, however, that Auckland has presented some challenges, partly because of its geography; but we were reassured to hear that back-up is available and, with the HVDC link upgraded, moving power from the South Island to where it is needed has become easier.
Appendix A

Committee procedure
We met on 25 February and 25 March 2015 to consider the annual review of Transpower New Zealand Limited. We heard evidence from Transpower and received advice from the Office of the Auditor-General.

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

Alastair Scott was not present for consideration of this annual review.

Evidence and advice received

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

Transpower New Zealand Limited, Responses to written questions, dated February and March 2015.
2013/14 ANNUAL REVIEW OF TRANSPOWER

Appendix B

Transcript of hearing of evidence 25 February 2015

Members
David Bennett (Chairperson)
Andrew Bayly
Chris Bishop
Hon Clayton Cosgrove
Julie Anne Genter
Fletcher Tabuteau
Grant Robertson
Jami-Lee Ross
David Seymour

Witnesses
Mark Verbiest, Chairman, Transpower
Alison Andrew, Chief Executive, Transpower
Alex Ball, Chief Financial Officer, Transpower

Bennett Good morning, everybody. Welcome to Mark, Alison, and Alex. Welcome to the committee. We’ve got till about 12.30, so we’re in your hands. If you want to give us a brief introduction, and then we’ll have questions from the members. OK?

Verbiest Thank you, Chairman. I will give a brief introduction. I’m conscious this is the first time we’ve been before this committee as opposed to Commerce. Mr Cosgrove we have seen before certainly.

Cosgrove I remember you from the mining days.

Verbiest Yes, absolutely—absolutely. And, look, we’ve got a few members of our senior staff as well, if we need them, in the background. I’m chairman of Transpower. You’ll be aware Alison is our chief executive. She’s now been in the job for just over a year. And Alex joined as CFO in October.

Firstly, if I could just give you a very quick overview about Transpower. We have two key roles. We build, operate, and maintain the national grid, as both operator and owner, and we also have a secondary role as the system operator. We have a contract with the Electricity Authority, and we, basically, operate the electricity system in real time.

We’re a fully regulated business, and I’ll just spend a little bit of time on that a little bit later. But, firstly, just to focus on our results for the last financial year ended 30 June. Just to make a point, we’re not far off actually issuing our 6-monthly results to the end of December. Because that’s not public and we’ve actually got public securities out there in the market, we’re not
actually able to comment much on that today. I can talk in generalities but not beyond that.

Financial highlights: you'll note that our operating revenue increased just over 9 percent to just over a billion, reflecting the commissioning of two of our major projects—North Auckland and Northland project, and the final stage of the Cook Strait link project. The overall 7 percent decline in net profit after tax before changes in the fair value of financial instruments reflects not only that higher revenue but, as a result of the commissioning of new assets, we had considerably higher depreciation and interest costs. Obviously, we needed to have funds to pay for these assets. So the result is largely a factor of our major build programme, which has pretty much come to an end.

Operating expenses were slightly lower than the previous year, and our total dividends for the year were $151 million. It’s worth recognising that in comparison to the previous year, the previous year we’d paid a special dividend after having sold a non-core business—a trading business in Australia called cyphaTrade—and so that accounted for a $65 million extra dividend that came to the Crown.

We met most of our operational SCI targets through the last financial year. The Cook Strait link availability was lower than target, due to additional outages associated with the commissioning of the new HVDC pole three systems. One of those occurred through the testing process—which is what testing is all about. Before the system was actually commissioned and operating fully 24/7, it’s important that we do these things. Now that the link is complete and in place, we expect our availability to be up around the 97 percent level for this year.

Cosgrove  Sorry, what was that?

Verbiest 97 percent. And we’re very focused on reliability. Reliability is one of the most important measures of our performance because it demonstrates how often we turn people’s lights off. Our goal last year was to have no more than 15 outages over 0.05 system minutes, and no more than three over 1 system minute. And just to put that in some perspective, a system minute is like turning Hamilton off for about 40 minutes on a winter evening. So that gives you some perspective around that.

Disappointingly, we had 17 outages over the 0.05 system minute measure—slightly above our target. A lot of these were as a result of mother Nature—weather or lightning strikes, which you can’t plan for—but, nevertheless, we set ourselves pretty strict reliability targets.

Moving on to safety: a key priority for us is to keep our people safe, and we aim to be zero harm. We, obviously, work in an industry where there is high risk and where mistakes can cause serious injury or harm. We, therefore, want to be vigilant about how we carry out our work all the time, with no exceptions. We had 30 medical treatment injuries and lost time injuries last year against the target of 30, coincidentally. These injuries ranged between
minor cuts and bruises to significant events such as broken ankles resulting from falls.

We’re working very closely with our service providers. To put it in perspective, Transpower has about 700 staff. We engage from time to time up to 2,000 contractors external to Transpower, who actually carry out the vast bulk of the physical work. And we’re, obviously, very keen to ensure that we are identifying further improvements that would make the entire workforce across both our company and those of our service providers much safer.

If we could turn briefly to CAPEX. Over the last 5 years—you’re probably well aware that we’ve been on a major capital build programme. Expenditure on our three very major projects is highlighted in the graph that’s before you—the North Island upgrade, the HVDC upgrade, and the North Auckland and Northland reinforcement, which was commissioned in February 2014. These projects alone totalled around $2 billion and were delivered together about 3 percent below the approved cost—that’s the cost approved by the Commerce Commission. And we’re now satisfied that we have a strong transmission grid backbone and restored resilience and diversity, especially for the benefit of our largest commercial centre, Auckland, which has, as we know, been growing very rapidly.

So going forward with these projects completed, we would expect capital expenditure to sit in the region of $300,000 to $400,000$ per annum on an ongoing basis. A lot of that is maintenance related but, obviously, we also have a programme to upgrade existing assets and bolster available capacity where it makes economic sense. There’s, certainly, limited investment in greenfield sites or projects that we would see going forward in the next while.

The year was a substantial one for Transpower. We commissioned the last two of our three major projects. Our focus now can shift on to developing new technologies and solutions to get more from our existing assets, resulting in better service for our end customers, less disruption, and, ultimately, less cost on the end consumers’ monthly electricity bill.

Consumer technologies are an important part of delivering on this. “Demand response” and “dispatchable demand” are two initiatives, which Alison is happy to fill you in on, that create better experiences for our end customers and will also meet and assist the economics of operating the grid.

Demand response, for example, is where we contract people that are willing to reduce short-term demand at times when we need to manage transmission constraints on a power system, and, obviously, that’s an alternative to having to build new transmission capacity.

Dispatchable demand is a project that we undertook with the Electricity Authority, so large users are now able to offer their load into the wholesale electricity market, and they can be instructed, if the pricing conditions are

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$4$ Transpower corrected this to $300 to $400 million.
right, to reduce demand if their offer is less than the next generation offer for any given half hour. Again, that’s seriously important in terms of being as economically efficient across the system as we can be.

Transpower also launched a new emsTradepoint system to provide liquidity and create a widely accessible trading hub for natural gas, which will help to better manage security of supply—because, obviously, gas is, ultimately, an input—either an end product or an input into electricity generation.

This year we achieved what’s known as PAS—or PAS 55—certification. That’s an internationally recognised programme for life cycle management of physical assets. And this is about focusing on asset management improvements and operating as efficiently as we can in our day-to-day dealings across our asset base.

I said I’d talk a little bit about regulation, and I’ll turn to that now. As part of our regulatory framework, we have two regulators: the Commerce Commission, basically, tells us how much we’re entitled to charge, and we can charge no more; the Electricity Authority creates the rules which determine who pays us what. We work within regulatory control periods as part of the framework that the Commerce Commission runs, and that covers all of our regulated transmission costs and activities, with the exception of the system operator, which is funded through this contract we have with the Electricity Authority.

Our key role is, obviously, to operate as efficiently as we can within the parameters set by the Commerce Commission. The current year is our last year within the first such control period. And the Commerce Commission, not that long ago, announced its final decisions about the financial parameters that are to apply from 1 April 2015 through to 2020. They are 5-year periods. And during this 5-year period, a portion of our revenue is also linked—incentivises us in relation to the level of service we provide our customers over the period.

Bennett OK. Do you have much more, because we’ll probably have to start questions soon?

Verbiest No.

Bennett That’ll be fine.

Verbiest Can I make a couple of very, very brief final comments, and then happy to—

Bennett OK. Do that.

Verbiest I’ll summarise quickly.

Just very quickly on pricing: we’re very conscious to try and ensure our component of an end consumer’s electricity bill is low. Those transmission charges make up about 9 percent of a typical homeowner’s bill. Going forward, we expect some modest declines in transmission pricing for AC network customers—those are the prices that are passed through lines companies to retailers and then end consumers.
And our, sort of, forecast—looking even further ahead—would, basically, see flat to declining transmission pricing. And in real terms, we’re back to sort of the level that we were around 1994, in terms of the proportion that transmission makes up.

I just wanted to make a final comment more focused around the impost of the latest regulatory decisions. And that, basically, is that with the new levels that they’ve set, we would expect that we’re going to face—particularly in the shorter term—lower revenues, which, ultimately, will flow through in the end result to our financial performance, at least in the short term.

Cosgrove: A large number. Look, just on that last point. The issue then is—and I know you’re constrained like some of your forecasts have said—do you anticipate, given that, have you sought or received any advice from Government or have asked for a capital injection?

Verbiest: No.

Cosgrove: You don’t believe you will require one?

Verbiest: No.

Cosgrove: So what’s the contingency plan to deal with, effectively, what will be a downgrade—

Verbiest: Well, the contingency plan is we’ll be asking management to focus on the areas that we do have control over, which is our expense line and how we can operate better.

Cosgrove: Well, can you be a little more specific in respect of that? By expense lines, do you have any—have you done any planning? What I’m getting to is: is there any risk in terms of ongoing maintenance for security of the grid? You’ve invested a lot. Are you going to try and squeeze more juice out of existing assets?

Verbiest: No, we don’t believe so. We will continue to operate on a very prudent basis. It’s more around what’s going to drop out the bottom line in terms of returns.

Cosgrove: Well, again, do you—within the bounds of what you can say, can you be more specific about what’s likely to happen?

Verbiest: All I can say at the moment is the overall impact of these decisions will drop approximately $75 million per annum off our revenue line. So that’s, if you like, the—but, you know, within our total budget, our revenue line is up around a billion dollars. So just keep it in context.

Andrew: Just building on what Mark said, we certainly believe we’ve got enough funding to run the grid and not get into the position of running down assets. We have a lot of work to do around our asset performance. We’ve done a lot of work in that area. Asset health maintaining—we have the $300 million to $400 million of capital investment to continue to refurbish and make sure that the grid is maintained. Because there’s been a lot of investment, as you know, into the grid, and it’s making sure that we do look after that investment—not over-invest. Transpower has a very challenging
line to walk between making sure that we have a robust system and people have a reliable power supply—and consumers are becoming more demanding rather than less—but also we have to make sure we don’t do that at a cost that’s unbearable for consumers. So it is quite a fine line to make sure we manage that tension between service reliability and delivered cost for consumers.

Cosgrove I take your point on that; it has improved, obviously. It was a discussion I think we had in Commerce a year or two ago about the maintenance of the grid and the, if you like, the decision-making process and the process that the Ministers were to get into in terms of assessing the financial requirements of you guys on a revolving nature to ensure that that maintenance is maintained. Some years ago it was well down; now it’s become more robust in terms of future proofing. What’s the scenario in terms of, you know, that monitoring process?

Andrew We do spend a lot of time, as you can imagine, looking out, to sort of say what’s happening with demand and supply because, clearly, the challenge is building in time for any new load but not building too early, because you’ve got that balance. So we spend a lot of time looking at what’s out there in terms of demand and supply, what’s out there in terms of new technologies, energy efficiencies, what’s coming, to try and work out a reliable scenario for the future. We don’t see at the moment a need for a significant new grid expansion, like we’ve come through the period over the last 5 years. We believe we have a good, robust, reliable grid, particularly in terms of lifting the power out of the lower South Island up into the Auckland area, where it’s needed. We have a robust system there. So our job is really to—there’ll be regional differences. There’s parts of New Zealand that are growing etc. but our job is to try and say: “With what we’ve got, how can we make those assets work really well? How can we find alternative ways to continue to supply without big investment in the grid?”. And we think we can do that, based on what we can see going forward.

Verbiest The other factor to bear in mind is that if you look at the demand forecast going forward, it’s relatively flat.

Andrew But there’s a wide range of uncertainty. It can go lots of different ways.

Cosgrove Before my next question—a colleague wanted a supplementary—I’m happy to pause.

Bishop I was going to ask was about the demand forecast, because one of the interesting features I think of New Zealand electricity market is, you know, 5 years ago all the projections were that demand would grow at 2, 2.5, 3 percent. The authority was saying that; I think Transpower was even saying that; MBIE was saying that—or MED, as it then was. We’re now in quite a prolonged period of economic growth—3 percent. Treasury is projecting 3, 3.5 for the next 3 or 4 years. The raw projections seem to be that electricity demand growth will be flat or even falling slightly. Do you have any explanations as to why that is?
Andrew

I think there’s a number of factors in there. First of all, there’s always one-offs, like some big industrial loads which are large, which can come in and out. Like, for instance, Norske Skog dropped paper machine a few years ago. There’s the uncertainty around what happens with Tiwai. So there are some big things that could be significant.

Energy efficiency is certainly making an impact, which is very positive for New Zealand in terms of just—we are demanding more from, and, effectively, have more electronic devices etc. but they’re just more efficient. So that’s being helpful.

And so I think that, as I say, we also see pockets of growth—like there are some regions of New Zealand where there is still quite a lot of investment in dairy and irrigation and that sort of thing, and those places are still growing quite quickly. On a macro level, that’s where we’re seeing the fall-off.

Other uncertainties: how much penetration you get from distributed generation like photovoltaics on people’s roofs. What happens with electric vehicles? Is there an uptake? That’s why we see that, yes, our projections are for flat, but there is quite a range of uncertainty that could be out there. That’s one of the challenges we have in running a grid, because the investments make a very long term—you take a long time to plan and get in place new assets. So how do you try and get optionality so that you don’t build too early but don’t get caught with building too late? And those are some of the innovative things we’re looking at.

Cosgrove Can I ask you—you mentioned Tiwai, and, obviously that’s, I think, contributed. Have you had any indications—given the new negotiation that took place last year; the shortened notice period from Tiwai—as to whether they are looking at changing their capacity?

Andrew No more than they have put into the public arena.

Cosgrove Pardon?

Andrew No more than they have put into the public arena.

Cosgrove Do you have any—given the short notice period—do you have any contingencies built in, or any plans built in; and if so, what would they be?

Andrew We have four projects around the lower South Island to enhance the amount of power we can pull out of the south. We have done two of them because they were justified already. We would need to have—we’ve got two on hold because they’re not justified until there’s either a major new generation or a demand change in the south. We have done all the planning and design work, ready to go should we have some definitive answer from Tiwai. We believe that power can still be moved north. That’s not the issue. There are conditions of hydrology where there would be some water spillage, but it’s not to say that power would still flow. And we have a plan to get that in place. But, you understand, we have not gone to the position of spending money—significant amounts of capital—until we get some certainty.
Cosgrove: Do you believe—I know it’s hard to see into the future, but do your contingency plans contain figures in terms of expenditure of capital, and can you tell us what they are?

Andrew: Yes, they do. That’s part of the project that we had pre-approved with the Electricity Commission. I don’t have the exact number.

Andrew: We can get those to you and come back. I have an idea but I’d rather give you the exact number.

Seymour: I just wanted to pick up on Chris’ supp’. What you’re saying could happen—as far as declining loads—is already a reality according to the folks at Vector on the distribution side, and they’re telling a story that, basically, goes like this: “Our volumes are falling. We have fixed costs. The only thing we can do is raise rates. If we do that, we accelerate the migration away from our model with the distributor generation and so on. We’ve got a real problem and dilemma here.” I just wondered do you guys—what sort of contingencies do you have if the load actually heads south, as the projections say it could?

Andrew: Clearly, we plan for and think about—

Seymour: And do the regulators get this, is probably more important?

Andrew: Certainly there are, and you’ll be well aware, other jurisdictions that have had issues with significant penetration—like Australia, for example—of photovoltaics, etc., and there are some challenges for different regulators around the world. We, certainly, look at that and plan for that and have some scenarios and things. Personally, I think New Zealand is very well endowed with very low cost—marginal cost—green generation. We’re 80 percent renewable already, and we have a really good, robust transmission system. So we have different dynamics and different challenges to other jurisdictions. But, yes, certainly we do look at that.

And this is what I talked about when we’re looking at optionality—things like demand side management. Where we come up against a grid constraint or something happening, we can look at getting invitations from people who are using electricity to participate, to drop their load. So rather than actually have to put new capacity on there, you can get them to manage their load, and that’s a way we can avoid having to commit capital or renewed constraints, and that buys us that optionality. So there’s lots of those sorts of things that we’re looking at to make sure we don’t get into a very difficult position if we can.

Seymour: Just regarding the Penrose substation fire in October. It’s not clear—or maybe you guys know—but it won’t be clear until May whose side of the transformer that was on. But you say that the public are increasingly worried about security—and as a local MP you certainly hear about. Do you have some contingencies in place or any plans at the moment for responding to that report? How would Transpower—

Andrew: We’re working at the moment with Vector on a joint investigation. It was a fire in a Vector cable trench in a cable duct on our Penrose substation. We’re jointly working with Vector. We’ve commissioned an independent
world expert from the UK to do some analysis to help us try and understand—we know where the fire occurred, but to try and understand why it's occurred. We haven’t got that report back yet, and that will be an important part of the Electricity Authority’s investigation. I don’t have any further information for you at this point.

Seymour

Is it possible that you’d open up a conversation with the regulator about, you know: “We’re under cost pressure here. This is why we have security issues.”

Andrew

That’s the discussion that we have with the regulator when we put our submission forward. We have a good, robust process we work through with that.

Ross

Just following on from that, the last time that Transpower was before a committee I understand that there were questions about Transpower’s investment in Auckland and also how prepared Transpower was for increasing demand in Auckland. A year on, can you give us any further views on Auckland and Transpower’s views on your own preparedness for increasing demand in Auckland? I realise you’re still waiting for a report back, but any further thoughts about that in light of the Penrose issue?

Andrew

We think we’re very well prepared for Auckland. There’s been a significant investment in the grid and these big upgrade projects, which are largely helping. We talked about the North Island grid upgrade—what we called NIGU—which is a big new line from Whakamaru up into the back of Auckland; NAaN, which is the big ring now around Auckland into two new substations—Hobson Street, Wairau Road, up into Albany across the bridge. So Auckland is now very well serviced in terms of a ring main and a main transmission. It does have some challenges. We’re all aware of the geography of Auckland; there are not so many places you can stick things through. That’s just a constraint we live with, but we feel very confident about the ability to supply up into Auckland.

There are always situations on a grid and running a transmission system where—we talked about lightning strikes, other things that can happen to disrupt supply. But we do have back up and reliability. We’ve upgraded our HVDC link so there’s a lot more ability to move power up from the South Island.

You’ve got to remember that in a transmission system we are just a part of an important physically linked value chain. So we rely on generators, who hook up to our system, and distribution companies, who pull the power off our system. So talking about supplying to Auckland, we rely on the generators putting power into the system, and Vector, in particular, pulling the power off our system at the various points. So from an end-user’s perspective, their service level is determined by Vector’s performance, our performance, and generators’ performance—so it’s a linked system. But we feel that the investment being made in the grid in recent times has meant that there’s a very robust and reliable power supply to Auckland.

Ross

Does Transpower engage with end consumers very much?
Andrew Our customers are the lines companies, and there’s 11 direct connect customers. They are the people who actually physically take power off our systems at substations.

Ross But do you make any efforts to engage with end consumers? Do you plan on making any efforts to engage with end consumers to see if end consumers are happy with the service provided through the transmitter?

Andrew The end consumers’ service is provided by the retail company. Yes, and they are an important constituent for us, and we do try to understand what’s happening in consumer markets—how they want to use electricity and what they’re doing in terms of that. But engaging with them directly? No, we don’t do that.

Genter I wanted to ask more about the demand-response energy efficiency and other initiatives that you mentioned reduce the requirement for new CAPEX and expansion of capacity. I’m wondering if you have any numbers on the cost savings of the work that’s been done so far? Like the benefits of your demand-response approach as opposed to additional CAPEX that would have been needed?

Andrew We have run a successful demand-side programme test in the South Island. I can give you a specific example where we used that to avoid constraining a local supplier when we had a power outage we needed to take. There are examples like that. Right now we have a demand-side application—actually we have a new iPhone app we’ve just downloaded, which talks about—we can give you a pamphlet at the end—that talks about how you can participate in the programme. And we’re using it for commercial buildings whereby it may be in some buildings’ interest to be paid to run their generator to avoid demand. So it’s early days, and we’re testing it. Specifically, we’re using it to avoid transmission constraints, so it’s more specific examples as opposed to—I can’t give you a dollar value overall, but we can come back with some more information if you like.

Genter Going forward, now that you’re nearing the end of the significant CAPEX works, do you have a plan, or what percentage of your business do you see as more managing demand for the existing asset at peak time as opposed to—

Verbiest That’s the $300 million to $400 million per annum that will still be required to keep our assets in a good performing position.

Andrew We’ve got—to put in context—178 substations, 12,000 kilometres of high-voltage line, 25,000 towers, etc. There’s a reasonable number of assets there that we have to maintain and keep painted, refreshed, replaced. Some of our transformers will live up to 70 years, but they don’t live forever. We need to keep them being replaced and refurbished.

Genter But to what extent do you think you guys can help mitigate risk of increasing the demand, particularly peak demand, on the network through

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5 Transpower corrected to 176 substations.
things like demand response or energy efficiency? To what extent can you work with other players—

Andrew Oh, we are working with the Electricity Authority, for example, and the industry on these initiatives, and it’s early days, but we’ll certainly do our part.

Tabuteau Just on the recent upgrade and the discussions around that: is the infrastructure capable of taking energy production back from household?

Andrew Generally, that tends to flow through the local distribution system. Clearly, if customers want to hook up to our grid, we have lots of people who do connect, and we liaise with them and some of our larger customers have their own co-generation etc. on site. But, generally, if you’re talking about a domestic level, that’s more likely to connect back into the local distribution system.

Verbiest But there is enough capacity, say, for example, in the context of dispatchable demand, which operates through the wholesale market. Obviously, that energy—electricity—would flow back through our system, ultimately. And yes, absolutely it’s got capacity.

Tabuteau Yes, that’s great to hear. Can I just ask about—can you give me an example of dispatchable demand? I’m just having trouble processing it.

Andrew Dispatchable demand is where you, effectively, get a major customer—say, for example, we have one participant—a major, big industrial—who has the ability to, on short demand, drop some load. So, effectively, they can participate in the electricity market, and rather than having extra supply called for you can have demand come off.

Tabuteau So, the example you gave earlier about them turning on a generator: you would compensate them for switching that on?

Andrew Well, the market basically. They bid into the market, and it’s maybe a more cost-effective option than increasing supply.

Seymour I just had a slightly technical question. So Transpower is the system operator, right? And from time to time, people speculate that if only we were to move from a uniform price option to a discriminatory one and pay people as they bid, then the wholesale price would suddenly come down to the average bidder and electricity would be dramatically cheaper for people. I just wondered if you could comment on what the general consensus is amongst electricity experts around the world on that question, and perhaps even why it seems to so persistently come up?

Andrew That’s a really good question for the Electricity Authority, who is responsible for market design—seriously. We can come back to you and get some view, but it’s really, as you say, an industry issue and something that the Electricity Authority would be consulting on and collecting views on.

Seymour So as a system operator you don’t have a view?

Verbiest No, all we literally do is physically operate the system in real time.

Andrew We work with the Electricity Authority—
Seymour: But, of course, according to the rules that are set down—

Verbiest: According to the rules, which the Electricity Authority sets.

Andrew: We work with them on market design, we have views and we work with them, but their job is to decide the market rules—the market design—and consult and bring the rest to the industry.

Seymour: Fair enough. We'll wait for them.

Bishop: I just note that the cost of the North Island grid upgrade project exceeded the maximum allowable cost approved by the commission—which is now the authority—by $70-odd million. Why was that? And what lessons have been learned for future projects?

Verbiest: I can answer part of that. Put it in the context that across three major projects, we delivered them under the total allowable cost. That project came in 9 percent over. You go back into history—and this is before all of our time, probably, involved with the company, but nevertheless—there was an urgent need for a grid upgrade into Auckland. Some of the planning had to be done in advance of being able to have access to land-owner sites and geotechnical work, and you normally wouldn’t necessarily run a project that way, but because of the urgency there had to be some changes in the make-up of how that project came about. And so it’s those sorts of issues that we’re discussing with the Commerce Commission now: “Given the circumstances that applied at the time, will you give us an extra allowance, taking account that we’re basically stuck, that we needed to urgently deliver the project?” So going forward, is that something that we would expect to happen? No, obviously not.

Andrew: Having talked about demand, we don’t see any need for those big new build projects. That was over brand new land, and there’s always more difficulty with securing access rights, as Mark’s alluded to, when you’re building brand new infrastructure. A number of the projects we’ll have going forward are more like the reconductoring and refurbishment. We’ve just got approval from the commission to refurbish or reconductor the Bunnythorpe to Haywards line. But that’s an existing line. And the challenges around access and acquiring rights to install towers—those issues aren’t there.

Bishop: Just dialling back a bit to something you said a while ago about photovoltaics and electric cars. I think there’s an increasing—5, 6, 7 years ago, people sort of talked about them in the abstract but I think there’s an increasing awareness from the general public, but also policy makers and politicians and others, that both those two things are now hitting, potentially—on the cusp of hitting critical mass in terms of uptake and popularity. Largely driven by cost, obviously. They have the potential to radically reshape the system. Are you—I think Miss Genter pointed it out as well—are you looking forward at what the system might look like in 30 years, rather than just, maybe, 5 or 10?

Andrew: Yes, absolutely.

Bishop: What might it look like?
Andrew Consumers want to exercise more choice, and that’s something that is happening around the world: people being more in control of their power bills. There are options for people to do more things. We think a lot of the work that’s been done on the smart grid is really thinking about this, being more interactive, two-way—they talk about “prosumers”, so people no longer just being a consumer and consuming but being a prosumer and sending things back; being able to control houses and do more things. So the grids need to be more responsive and more dynamic. A lot of the smart grid thinking in the smart grid forum, which we participate in, a lot of the work we’re doing around innovation—R and D—is thinking about this. There’s a lot of interesting work around how you can control a grid now, smart stuff you can put on there to look for faults, distance to faults, do maintenance work, etc. So there’s some really interesting technology and changes that will help make our grid smarter, and we definitely look at that.

Verbiest I’m sure that’s going to be a big debate coming down the pipe because, obviously, it has other implications, given there’s some pretty sizable existing assets that there’ll be discussions about—well, “Who pays?” all those sorts of things. But I’d say those sorts of things are just emerging.

Andrew And things like: if we all get electric vehicles, it clearly wouldn’t be in our interest to all charge them at exactly the same time on the grid, because you’d need to build a massive system with peaking. So how do we manage those sorts of issues—they’re all things we need to work through.

Robertson It’s an interesting discussion. My point was just to jump back briefly to the Commerce Commission, and you nicely alluded to that at the very end of your presentation. Obviously, we all understand that you’re not necessarily going to like every decision that comes down the line from the commission. You’ve mentioned the impact that it’ll have on your financial forecasts, and so on. I wanted to see if you want to say a little bit more about any concerns you might have about the impact on other investment decisions that you’re going to make.

Verbiest Look, I’d have to say we’ve had very constructive engagement with the Commerce Commission, and as you say, we don’t always like their decisions, but we get a fair hearing. And some of these issues are around quite arbitrary points in terms of weighted average cost of capital and what sort of assumptions you build in, so it’s quite tricky. I think the key thing is to ensure that we get our points across, and sometimes we have quite robust discussions, and our submissions are pretty forthright in terms of implications. I don’t think it would be fair to say that they’ve done anything to date that you would regard as seriously threatening—I mean, otherwise, you would have heard us about it.

Robertson Would you propose any change to that process with the Commerce Commission?

Verbiest I think that’s leading into quite a, potentially, big policy debate around regulatory structure.
Bayly Actually, I’ll just finish off and say the Commerce determination was 0.25—reduce your WACC by that. Is that a final position now, or is that—you’re still in engagement, is it? Or is that the final determination.

Verbiest Yes, it is.

Bayly So you’ve got to live with the 70 million reduction.

Verbiest Yes. But the 70 million—we’d need to give you quite a detailed answer as to how that is constructed, because part of it relates to the reduction in the WACC, part of it relates to timing differences in the regulatory control period calculations—there’s quite a number of things that make up that 75 million annual impact.

Bayly Can I just finish off—we were talking about the green stuff, which we’re all very interested in. So you’re saying distributed energy options, which increasingly will become the focus—in particular, have occurred in Australia—demand-side management—all those sort of things. Smart metering. And so, in terms of—you manage the grid, the main grid. At a local level, is there sufficient capacity management systems in place, both locally and nationally, to make sure that these smarter technologies that are coming in—

Andrew We’re working on what we can do for the grid, the national grid. When you ask the question “Is there sufficient capacity for the lines companies?”, I can’t answer you that question. I don’t have detailed information, and I know they’re aware and they’re working through those issues.

Bennett Thank you very much for your time. We appreciate everything you’re doing, and keep up the good work, OK.

**conclusion of evidence**
2013/14 Annual review of the Waikato District Health Board, the West Coast District Health Board, and the Whanganui District Health Board

Report of the Health Committee

The Health Committee has considered the annual review of the 2013/14 performance and current operations of the Waikato District Health Board, the West Coast District Health Board, and the Whanganui District Health Board.

The committee has no matters to bring to the attention of the House and recommends that the House take note of its report.

Simon O’Connor
Chairperson
2013/14 Annual review of the Waitemata District Health Board

Report of the Health Committee

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Waitemata District Health Board

Recommendation

The Health Committee has conducted the annual review of the 2013/14 performance and current operations of the Waitemata District Health Board, and recommends that the House take note of its report.

Introduction

The Waitemata District Health Board is the largest district health board (DHB) in New Zealand. It serves a diverse and rapidly growing population of more than 560,000 people and has a partnership with Te Runanga o Ngāti Whātua to address health inequities affecting Māori. The DHB is funded by the Ministry of Health to plan, purchase, and provide health services, including public hospitals and most public health services in its area.

In 2013/14 the DHB’s total revenue was $1,476.157 million, and its total expenditure was $1,472.623 million, resulting in a surplus of $3.534 million.¹

Improvements in service

The performance of the Waitemata DHB has improved greatly in recent years. In response to problems raised in a previous Health and Disability Commissioner’s report, the DHB developed a culture of putting patients first.² The DHB says it also listens to the concerns of clinicians and works with them to address issues to improve clinical services. It takes a “holistic” approach to hospital services, for example by improving the system of patient flow through all hospitals. This has helped patients to be seen more quickly in emergency departments. Elective surgery has also increased in Waitemata, and it is recording a high level of patient satisfaction.

In 2013/14 the DHB achieved all of the national health targets set by the Minister of Health, regarding stays in emergency departments, access to elective surgery, waits for cancer treatment, immunisation, heart and diabetes checks, and help for smokers to quit. While it acknowledges it still has a lot of work to do, particularly regarding consistency of care, we congratulate the Waitemata DHB on the improvements that it has made, and on its performance in 2013/14.

Financial sustainability

The Waitemata DHB has stayed within its budget for the past five years. However it told us that it functions in a challenging economic environment of increasing demand as the area’s population continues to grow rapidly and age. The organisation aims to remain financially sustainable and predicts a $1-million dollar surplus for 2014/15 and hopes to break even in 2015/16 and 2016/17.³

¹ Waitemata District Health Board annual report 2013/14, p. 39.
² Health and Disability Commissioner, North Shore Hospital: March to October 2007, published in 2009.
³ Waitemata District Health Board annual report 2013/14, p. 24.
The DHB said that gains in healthcare outcomes and services are getting harder to make and maintain, but it does not think it will be necessary to reduce services in the short term. It is confident that maintaining a focus on quality and improvement will return positive results. In the past it has used comparisons with other DHBs as a benchmark for successful improvements; it now plans to compare its outcomes with Australian healthcare providers.

**Models of care**

The DHB adjusts its models of care to meet changing needs. For example, after it recognised that people in the Waitakere area faced access barriers it increased the opening hours of the local hospital’s emergency department.

We were interested to hear that the DHB also gives people access to specialist hospital staff through primary care providers like the New Lynn Integrated Family Health Centre. It also holds walk-in clinics for issues such as Māori diabetes. Palliative health care programmes in hospices and the community have also been improving. All hospices increased the number of inpatient beds and a single medical model of palliative care is being proposed for the whole DHB region.

The DHB told us that it works to improve home-based support services. We heard that the standardised assessment tool interRai is useful, but time-consuming. The DHB has just invested over $1 million in the CARE pilot project in Rodney, which involves gerontology nurse practitioners assessing the needs of the elderly to improve their home-based care and decrease their need for hospitalisation. We will be interested to hear whether the pilot is successful, in which case it could be extended throughout the district.

The DHB has a programme for increasing the number of patients screened for bowel cancer, and has been targeting its Māori and Pacific population. It told us that a surprisingly large number of polyps are being found during screening. As a preventative step the polyps are removed during the screening.

**Life expectancy**

We were particularly pleased to hear that the average life expectancy in Waitemata has increased and is the highest in New Zealand. The Waitemata average is 85.1 years, three years higher than the rest of the country.\(^4\) Māori life expectancy in the area is 76 years which is also three years above the national average for Māori across New Zealand.\(^5\)

The DHB told us that the increase reflected a combination of factors including socio-economic profiles, lower rates of smoking and obesity, rapid access to trauma services, use of statins, and better cancer treatment. It also explained that the large number of Asian migrants to the region, who have a very long life expectancy, boosts the average life expectancy in the Waitemata DHB catchment.

**Cardiac arrest services**

Treatment for cardiac arrests has improved in the Waitemata DHB in 2013/14 since a cardiology ward was opened at Waitakere in 2014. Patients need to access cardiac catheterisation laboratories as soon as possible after a heart attack. Before the new cardiology ward was opened, patients in Waitakere would have to wait up to five to six days

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\(^4\) Waitemata District Health Board, responses to committee questions, p. 3.

\(^5\) Waitemata District Health Board annual report 2013/14, p. 20.
in the Waitakere coronary care unit for access to the North Shore labs, whereas patients on
the North Shore would be examined within one or two days. The benchmark standard for
the country is three days. Since the Waitakere cardiology ward was opened, waiting times
have dropped for Waitakere patients to two to three days.

**Smoking**

The prevalence of smoking in the Waitemata DHB dropped from 17 percent in the 2006
census to 12 percent in the 2013 census. There was also a decline in smoking of more than
10 percent for Māori in the area to 27 percent between the two censuses.

The organisation was the highest-rated DHB for performance against the national health
target of better help for smokers to quit, with 97 percent of hospitalised smokers receiving
advice on quitting smoking in quarter four of 2013/14. The Ministry of Health’s target is
95 percent. The DHB said, however, that the probability of smokers quitting after initial
advice is very slim, and there is a need to take multiple approaches simultaneously. It also
said there remained a need to strengthen legislation against smoking, which is still one of
the leading causes of death in New Zealand.

We asked whether the DHB had a view on e-cigarettes and whether they could be used as
therapy for quitting. The DHB said that it gives traditional nicotine replacement therapy to
patients in the form of nicotine patches or gum. It does not have an official policy on e-
cigarettes, and would need to see research evidence before giving an opinion on their
potential for quit programmes.

**Mental health services**

Waitemata DHB has the largest mental health service in New Zealand. It told us that the
burden of mental ill health is much larger than people commonly understand. Suicide rates
among young people are a concern for the DHB, despite its having the third-lowest suicide
rate in the country. It said that alcohol and drugs have a significant adverse effect on
mental health. The DHB said that mental health is one of its priority areas and it is
addressing the issue in hospitals, primary care, and the community. There has also been a
large increase in the number of prisoners in the area and the DHB’s forensic services want
to work with prisons to provide services.

We asked whether people have been more willing to come forward with mental health
issues as a result of improvements in mental health services. The DHB said that the stigma
around mental health issues has declined and that public awareness campaigns have made it
easier for people to seek help, but the effective provision of services needs a lot of ongoing
attention.

**Staffing**

We noted that the DHB has no female employees receiving a salary of more than $440,000,
while it has 11 male staff being paid more than this. The DHB said it does not have a
specific policy of encouraging women into senior positions, but that all applications for
positions are assessed equally. The DHB also said that the medical profession is changing,

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6 Waitemata District Health Board annual report 2013/14, p. 15.
7 Ibid, p. 20.
8 Ibid, p. 15.
9 Waitemata District Health Board, responses to committee questions, p. 48.
and that more women than men are emerging from medical schools. This is reflected in the increasing number of women becoming specialists and taking senior roles.
Appendix

Committee procedure
We met on 11 February and 1 April 2015 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)
Jacqui Dean
Kevin Hague
Hon Annette King
Barbara Kuriger
Dr Shane Reti
Carmel Sepuloni
Scott Simpson
Barbara Stewart

Evidence and advice received
Waitemata District Health Board, Responses to written questions, received 9 February and 16 March 2015.

Office of the Auditor-General, Briefing on the Waitemata District Health Board, dated 11 February 2015.

Organisation briefing paper, prepared by committee staff, dated 9 February 2015.
2013/14 Annual review of WorkSafe New Zealand

Report of the Transport and Industrial Relations Committee

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Recommendation

The Transport and Industrial Relations Committee has conducted the annual review of the 2013/14 performance and current operations of WorkSafe New Zealand, and recommends that the House take note of its report.

Introduction

WorkSafe New Zealand is the country’s new workplace health and safety regulator. It was established on 16 December 2013, having been set up in response to recommendations of the Royal Commission of Inquiry into the Pike River Coal Mine Tragedy, and the Independent Taskforce on Workplace Health and Safety. Among other things, WorkSafe NZ carries out the health and safety functions previously carried out by the Ministry of Business, Innovation and Employment (MBIE), and earlier, the Department of Labour.

According to WorkSafe NZ, 57 workers died from work-related injuries in 2013. In addition, approximately 6,000 people are seriously harmed at work each year, and 600–900 die from disease caused by long-term workplace exposure to harmful influences.

The Government’s target is to reduce workplace deaths and serious injuries by 10 percent by 2016, and 25 percent by 2020, and WorkSafe NZ is leading the effort to do so. It shares these targets with the Accident Compensation Corporation (ACC) and MBIE.

WorkSafe NZ said its single most important task is to change the prevailing culture of insufficient attention to workplace health and safety in New Zealand. We heard that WorkSafe NZ’s message for businesses is “good health and safety is good business”.

Organisational growth

At 30 June 2014, WorkSafe NZ employed 385 staff, and it expects to be fully staffed with about 525 employees by June 2016. It employs 153 health and safety inspectors, half of whom are qualified in the management of hazardous substances. In addition, it employs 16 specialist high-hazard inspectors. WorkSafe NZ believes that by June 2015, it will have about 180 inspectors; and by June 2016, about 200 general inspectors and 24 high-hazard inspectors. It will be important how WorkSafe NZ manages the expansion of its staff.

WorkSafe NZ commented that not all inspectors can know every process and every industry intimately. WorkSafe NZ wants its inspectorate to have enough knowledge to develop sector-specific guides and standards, and to foster the mentoring and development of staff who do not have specialist knowledge.

ICT budget

We were told that $14 million is allocated for setting up WorkSafe NZ’s ICT system. WorkSafe NZ assured us it intends to keep within this budget. It wants a system flexible enough to match any new requirements in its processes.
Inspections

In 2013/14, WorkSafe NZ conducted 11,411 health and safety inspections. We note that 77 percent of surveyed employers had changed their workplace practices after they had been visited by inspectors. WorkSafe NZ initiated 110 prosecutions.

As well as inspection and enforcement, WorkSafe NZ seeks intelligence on better ways of operating, and undertakes communication and stakeholder engagement, working through others to secure improvements rather than always exerting influence directly. The Safer Farms engagement and education programme is an example of the way WorkSafe NZ is spreading safety messages. We heard that Safer Farms is a very important initiative for New Zealand, where more people are killed in agriculture than in manufacturing, construction, and forestry put together.

Canterbury

WorkSafe NZ has started a safety programme for workers rebuilding Canterbury, which it believes has been successful. We heard about its Canterbury Rebuild Safety Charter, which provides information, guidance, and support for member organisations, who share useful information about health and safety. The charter now has over 180 signatories.

We were interested to hear that WorkSafe NZ has brought in 16 inspectors from New South Wales to augment its Canterbury team.

We were told about “toolbox meetings” for workers, during which topics such as excavations, asbestos, mobile plant, and working at heights are discussed. Over 2,300 workers have attended these events.

WorkSafe NZ said that larger businesses can usefully encourage small businesses to improve their health and safety performance. Large businesses can require their contractors to comply with certain standards; they can also be available as a resource to help contractors improve their own health and safety standards.

WorkSafe NZ is pleased with the performance of its safety programmes in Canterbury and is considering how to export them to other areas of New Zealand.

Cross-agency cooperation

We asked about collaboration between WorkSafe NZ and ACC. In addition to the chair of WorkSafe NZ being on ACC’s board, we heard that ACC and WorkSafe NZ have a joint injury-prevention plan. A particular area of cooperation is the Safer Farms programme, led by WorkSafe NZ with funding from ACC. This is expected to be the first of a number of programmes shared with ACC. In addition to the long-term outcomes of fewer deaths and serious injuries, we will be interested in any medium-term results from these collaborations, such as appreciable or measurable changes in industries’ awareness, attitudes, and behaviour.

WorkSafe NZ also wants to capitalise on the skills and interests of other agencies. For example, it said it could cooperate with MBIE to find common ground, such as the contribution of labour conditions to health and safety. It also wants to ensure that there is no duplication of roles, for example in the boat inspection duties of Maritime New Zealand and WorkSafe NZ.
Ports

We also heard that WorkSafe NZ is interested in working more coherently with the port sector, rather than dealing with incidents in isolation. WorkSafe NZ hopes to discuss health and safety progress with the ports at a senior level. We encourage WorkSafe NZ to keep aware of new and emerging issues relating to ports.

Amusement rides

Given the recent media reports of trouble with certain types of amusement rides, we questioned WorkSafe NZ on its responsibilities in this area. We heard that there is shared responsibility for such rides between WorkSafe NZ and local authorities, and WorkSafe NZ has been communicating with local authorities about what standards should be expected. WorkSafe NZ also talks with operators about the safe management of rides, and investigates problems that arise.

We learnt that amusement rides whose motion is powered are subject to the Amusement Devices Regulations 1978; however, inflatable slides, which utilise gravity only, are outside the regulations. WorkSafe NZ said it has visited inflatable slide operators to work through safety issues. Although there is a general duty to take practical precautions when working with inflatable slides, WorkSafe NZ said it is working towards regulations to improve the safety of their operation.

Changes to health and safety legislation

WorkSafe NZ believes businesses are comfortable with the concept proposed in the Health and Safety Reform Bill currently before us, of having multiple “persons conducting a business or undertaking” (PCBUs) on one site, all with health and safety responsibilities, some possibly overlapping. WorkSafe NZ said that more clarity on roles and responsibilities will come from regulations, and guidance that is planned to accompany the legislation. WorkSafe NZ told us that the Business Leaders’ Health and Safety Forum, consisting of over 200 chief executives from New Zealand’s top organisations, is developing guidance and standards for interaction between contractors.

WorkSafe NZ particularly wants small and medium-sized enterprises to understand the new legislation. It said that smaller businesses can be difficult to engage, and it needs to provide these businesses with messages to demystify health and safety for them.

The other key message it wants to publicise in relation to new legislation is the importance of workers’ participation in health and safety. It said alongside employers, workers have an obligation to ensure their own safety and that of others. WorkSafe NZ said it is consulting stakeholders about proposed guidance on worker participation in health and safety. It plans to include guidance appropriate for smaller enterprises.

Corrections to evidence given

We have adopted the transcript of our hearing with WorkSafe NZ; and we note that the corrected transcript is accurate as a record of the hearing. However, WorkSafe NZ has brought to our attention two inaccurate statements it made during the hearing. The first appears on page 4 of the transcript, in the third-last paragraph. Mr MacDonald has clarified that he meant to say “ports” rather than “port”. Also, when he mentioned 385 staff (on page 7 of the transcript), he has clarified that this figure referred to staffing at 30 June 2014 rather than at the date of our hearing.
Appendix

Committee procedure
We met on 4 and 9 December 2014, 12 and 19 February, 12, 19, and 26 March, and 2 April 2015 to consider the annual review of WorkSafe New Zealand. We heard evidence from WorkSafe New Zealand and received advice from the Office of the Auditor-General.

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

Evidence and advice received
Office of the Auditor-General, Briefing on WorkSafe New Zealand, dated 12 March 2015.
WorkSafe New Zealand, Responses to pre-hearing questions 1–141, received 2 February 2015.
WorkSafe New Zealand, Responses to post-hearing questions 1–4, received 23 March 2015.
WorkSafe New Zealand, Addendum to transcript, received 25 March 2015.